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DIVERSIFICATION IN COMMODITY-DEPENDENT COUNTRIES: THE ROLE OF GOVERNMENTS, ENTERPRISES AND INSTITUTIONS

Report by the UNCTAD secretariat

CONTENTS

		Paragraphs
I.	Introduction	1-5
II.	Global trends	6-11
III.	Relevant agents and actors in the diversification process	12-60
A.	The role of government	12-38
1.	An environment supportive of business	12-16
2	Trade policies	17-21
3.	Technology policy and information technology	22-26
4.	Agricultural policies	27-35
5.	Mineral policies	36-38

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B. Enterprise sector strategies in diversification 39-54

1. Corporate-level decision-making 41-45

2. Foreign investment 46-48

3. Inter-firm relations 49-54

(a) Commodity chains 49-52

(b) Clusters and networks 53-54

C. The socio-institutional framework 55-60

IV. Conclusions and recommendations: A proactive agenda for diversification 61-65

"We have to be more shock resistant, to reduce our exposure to volatile commodity markets. Diversification remains one of our greatest challenges". Adviser to President Bedie of Côte d'Ivoire (Financial Times, 2 June 1997)

I. INTRODUCTION

1. The first session of the Commission on Trade in Goods and Services, and Commodities selected diversification in commodity-dependent countries as a topic to be addressed at its second session.[1] The present report has been prepared to provide a background to the Commission's discussions. It incorporates the relevant findings of the report prepared for the Expert Meeting on Vertical Diversification in the Food Processing Sector in Developing Countries (1-3 September 1997).

2. Many commodity-dependent countries are too small or poor for their domestic markets to stimulate - and absorb - diversified production based on their raw material resources. They are therefore obliged to seek export outlets for such production. Moreover, even those commodity-dependent countries with a large domestic market, which could absorb domestic production and therefore have a comparative advantage in diversifying vertically or competing effectively in the whole value chain, in general also rely heavily on external markets. For non-food commodities in particular, which are basically inputs to other products, most countries seek broader markets and have to rely on external opportunities. Policies related to diversification accordingly need to be anchored in the commercial reality that globalized production has become very sophisticated in tapping local inputs, exploiting skill and wage differentials, or jumping trade barriers. Production is increasingly undertaken in slices, with intermediate products moving from one location or country to another at different stages of commodity chains which cover a product from its planning, production and distribution through to its disposal (such as with packaging material).

3. In such a context, the short-term advantages of attaining a diversified production and export structure in commodity-dependent economies are undisputed. The longer-term benefits accrue from a more efficient exploitation of the country's dynamic comparative advantages. Experience shows that in this area success breeds success.

4. At the same time, it should be borne in mind that diversification is not an end in itself but rather a means towards development. Given that in most of the commodity-dependent countries the majority of the labour force is engaged in commodity-related economic activities, ensuring that diversification goes in tandem with poverty alleviation is the ultimate measure of the success of the diversification process. In some cases, conflicts may arise among different objectives, for example upgrading skills and enhancing efficiency on the one hand, and generating employment and improving income distribution on the other. If basic conditions are appropriate, however, this conflict may be essentially one of timing. To resolve it, a careful prioritization and sequencing of policies is required.

5. Despite the difficulties, the past few years are replete with examples of diversification success stories. Malaysia diversified successfully into palm oil and cocoa; Colombia did the same with fresh-cut flowers and Kenya with horticultural products. Many further examples are given below. In each case, the countries have given diversification-related policies particular attention. The present report considers such policies but focuses on their practical aspects as they relate to the operational roles of government, enterprises and social institutions in the diversification process. Particular focus is placed on

policies and conditions which can activate positive responses from decision-makers in both large and small enterprises in the commodity sector.

II. GLOBAL TRENDS

6. With globalization and liberalization, the world market for commodities is being reshaped and becoming more complex. The current setting is characterized by the need for (i) larger capital resources, (ii) sophisticated technology, including information technology which can improve management practices and assure instantaneous access to information, and (iii) human skills for access to global markets. This can reinforce trends towards greater concentration. The report on vertical diversification in the food sector (TD/B/COM.1/EM.2/2) underlines the special need to focus on these elements for promoting diversification.

7. As globalization proceeds, however, dynamic exporters have been taking over the market shares of weaker commodity exporters in world markets. Market imperfections and increasing returns to scale favour large producers and well established traders. Weaker exporters find it increasingly difficult to compete in world markets which are becoming ever more sophisticated and demanding. The gap between the more advanced developing economies and the weaker ones is widening. Deliberate policies and measures are needed at both the national and the international levels to reverse the trend towards divergence.

8. With respect to Uruguay Round reforms, tariffication and the binding of tariffs have led to greater transparency and predictability. Nevertheless, considerable barriers still exist in the main export markets, and notably for agricultural, fisheries and meat products (UNCTAD, 1997b). Moreover, tariff escalation remains for many products such as processed food items, limiting vertical diversification into this area, and several tariffs have been bound at prohibitively high levels, much above the applied tariffs. This could impose severe constraints on initiatives towards diversification.[2] Additional barriers that exporters of commodities, such as processed food products, have to overcome include levies, minimum import prices, and other regulations pertaining to packaging, labelling, health and quality standards (UNCTAD, 1997b).

9. In the context of the "built-in agenda" of the Uruguay Round, the further liberalization of agricultural trade, in particular the elimination of agricultural subsidies in developed countries, and the integration of the textiles and clothing sectors into the Uruguay Round Agreements are especially important for the diversification efforts of commodity-dependent developing countries.

10. Currently, the market mechanism, deregulation and liberalization measures agreed in the context of Uruguay Round Agreements provide the framework within which diversification strategies have to operate, be they at the government or at the corporate level. This setting differs substantially from the environment in which earlier generations of developing countries had embarked upon, and succeeded in, diversifying their economies. The Uruguay Round obligations, however, do not seem to be a determining constraint on the choice of policy, because a large number of commodity-dependent developing countries are exempt from various obligations which would limit their choice of diversification policies.[3] One might, therefore, argue that it is the prevalent approach to development, rather than internationally agreed trade rules, which constrains the choice of diversification- and development-related interventions. As an example, Box 1 gives a brief account of Sri Lanka's diversification programme.

Box 1

Privatization, government policies, crop diversification and export growth in Sri Lanka

Since 1987, the Sri Lankan Government has been implementing a vigorous, private-sector-led programme of diversification, export growth, and raising of peasant incomes. This has included (i) the privatization of management on state-owned tea and rubber plantations, and (ii) emphasis on contract farming. The latter is a system in which peasant smallholders supply produce under contract to a central processing or marketing firm, either supplementing or substituting for company production. The terms of purchase are agreed in advance in a contract which specifies how much will be bought, the price that will be paid and how risks are allocated. The firm also agrees to provide inputs and technical advice to the producer, and it retains the right to reject substandard produce.

Thus, the formula by which diversification and export growth were to be achieved was through the creation of a relationship between a corporate sector firm with capital and know-how and a smallholder with land and labour. The peasant production base was profitable to agribusiness because it enabled the latter to off-load many of the risks involved in the cultivation of vegetables and fruits. Moreover, the sector could not be easily mechanized and peasant production is basically cheaper.

Some success has been registered, but investors have been hesitant. This is partly because the open economy offers other more attractive opportunities, and going into vegetables and fruits is considered a risky venture. In successful cases, particularly in the irrigated settlement areas, state involvement has been crucial. A wide range of R&D and technical assistance has been provided by specialist units with the support of the Department of Agriculture and with considerable donor assistance.

Source: Dunham, 1993.

11. In order to integrate effectively into, and benefit fully from, a liberalized world trading system, commodity-dependent countries which are on the verge of marginalization need to look beyond the elimination of trade barriers in their export markets. They have to close the "connectivity gap" and improve their supply capacities, as well as the timeliness and flexibility of their response to new and emerging market opportunities. These are crucial aspects of a trade liberalization agenda from the point of view of these countries. The emphasis may differ somewhat from that adopted by the more advanced and diversified developing countries. The commodity-dependent countries might consider integrating into their positive agenda for further multilateral trade liberalization a commitment from more advanced countries concerning support in the areas of technology upgrading, training and infrastructure. Such support is already included, for example, in bilateral agreements on access to fishery resources and in some multilateral environmental agreements. At the multilateral level concerning trade, however, such assistance has so far been mentioned only for the least developed countries in the context of the Ministerial Decision on Measures in Favour of the Least Developed Countries.

III. RELEVANT AGENTS AND ACTORS IN DIVERSIFICATION

A. The role of government

1. An environment supportive of business

12. The economic, political and legal decisions of Governments define the framework for the diversification process, which is in practice carried out by the enterprise sector in response to market conditions and signals. Although, generally, diversification is not an explicit objective of these decisions, the achievement of economic stability and a favourable business environment through such decisions can unleash the entrepreneurial forces needed for diversification

and encourage investment. For diversification into areas where investments have long lead times before they bear fruit, stability and predictability of policies is particularly important. Box 2 gives an overview of risk factors in diversification.[4]

Box 2
Risk factors in diversification

Risk is a key factor in the socio-economic realities of diversification. At one end of the enterprise spectrum, small farmers in developing countries grow a wide range of traditional crops and undertake a number of off-farm activities, so as not to be overly dependent on one market, a single source of income, and particular weather and other external conditions. They thus forego the benefits of either specializing in profitable crops or diversifying into non-traditional areas. At the other end of the spectrum, for larger firms presence in a variety of industries and markets reduces their exposure to particular risks. Large investors diversify their asset portfolio in order to optimize their risk/return ratio. Commodity buyers, faced with a choice of potential suppliers, are likely to opt for those with a reliable delivery record. Diversification can serve as a risk management strategy, but risk can also hamper diversification.

The global playing field is far from level. The poorer and less diversified the country, the riskier it is for a local producer to diversify, and the riskier it is for a foreign buyer to support these diversification efforts. Production risks increase when the supply of inputs (seeds and agricultural inputs, intermediate products and machinery) is not reliable. Risks related to timing, crucial for just-in-time delivery systems that drive many global commodity chains, are larger where transport and communications infrastructure is deficient. Considerable credit risks hamper trade finance and financial risk management in countries with high sovereign risks, an issue closely related to a country's economic development and economic policies. Moreover, the traditional international financing mechanisms, based either on a company's track record or on the proceeds of its sales to known buyers, are difficult to use for non-traditional exports. Higher risks mean that the return on an investment needs to be higher in order to make the venture worthwhile, and thus, many potential diversification activities never take place because the high profit benchmark cannot be reached.

Unfortunately, those countries in which diversification is the most risky also tend to have the weakest institutional framework for managing risks, while instability in their government policies may add risks rather than mitigating them. Sound, transparent government policies are thus one part of the solution. However, in the provision of efficient economic infrastructure (ports and airports, communications systems, etc.) and of the supporting institutional framework (insurance companies, information collectors and providers, well-functioning banks, brokers enabling the use of foreign price risk management markets, etc.), developing countries continue to require international assistance, for instance in the area of training and in the development of new operating modalities (guidelines on documentation and transaction controls, etc). At the enterprise level, managers need to learn how to evaluate and manage risk - how to account for risk in their business plans, how to reduce cash flow volatility by forward contracting and price risk management, and how to reduce marketing risks by, among other things, better logistics. If this is done, diversification opportunities that initially appear too dangerous could thus become feasible.

13. In many developing countries, clear property rights are very important for the development and diversification of the agricultural and mineral sectors. Diversification, particularly when land is scarce, needs investment, and farmers without secure property rights are reluctant to undertake such investments (Pingali and Rosegrant, 1995, p.181f). Moreover, households without land generally face major constraints in gaining access to credit. They rely on informal channels, rotating funds, local money lenders and landlords. The latter in particular tend to be much costlier than other sources but are often the only source of uncollateralized loans.

14. Formal sector loans are far less accessible. Agricultural banks, rural offices of postal savings institutions, and various development and NGO projects have provided credit, often at subsidized rates, to the rural sector, SMEs and micro enterprises. They have proven helpful in funding developmental and diversification expenditures of poor households. However, recent trends towards

deregulation threaten to reduce such sources of cheap finance, and access has become more time-consuming as banks have been closing branches in areas with low turnover. Hence, the provision of micro credit in various forms can be a crucial factor in cushioning the risks associated with diversification.

15. With increasing privatization and liberalization, Governments are often unable or unwilling to resort to regulatory measures and direct support for enterprises. In this context, improving the physical infrastructure and providing support in the form of training, upgrading skills and technology levels, and facilitating access to information may become the main conduit of assistance to diversifying enterprises.

16. A sufficiently developed physical infrastructure, including irrigation systems, transport networks, and port, airfreight and storage facilities, has been critically important in successful diversification experiences. Even one missing link may be detrimental to success.[5] In the case of mining, major investments in infrastructure are often necessary to allow the development of mineral deposits in remote areas. These investments can also benefit producers of other commodities by reducing their transportation costs and bringing them closer to markets, thus making possible the establishment of new forestry or agricultural production. The private sector can be an important source of funds for such infrastructure projects; creating conditions for mobilizing private sector funds, for example through deregulation, could thus be an important policy initiative for commodity-dependent countries.

2. Trade policies

17. Tariffs and non-tariff measures, as well as direct financial support for exporters, are being dismantled in the new trading system and economic policy framework.[6] One of the expected positive effects of trade liberalization on diversification, and particularly vertical diversification, will be to give processors access to complementary inputs at world prices, thus providing a better basis for competition.

18. Export taxes or prohibition of certain exports are normally associated negatively with trade-driven development. They have been used, however, as effective instruments for promoting domestic processing activities which are, sometimes, controversial. Their abolition may increase export earnings but harm domestic processing. Box 3 describes such a situation in Mozambique.

Box 3

Export taxes and processing cashew nuts in Mozambique

Cashew export liberalization was one the seven "necessary conditions" for loans that were set out by the World Bank in its 'Country Assistance Strategy' for Mozambique in 1995. The export tax on unprocessed cashews has been cut from 26 per cent in 1994/95 to 14 per cent this year. Eventually, the aim is to phase out taxes completely by 2000.

Whilst this will allow the export of raw nuts, particularly to India, which can bring in valuable foreign exchange, indigenous entrepreneurs insist that it will cause the demise of one of the few sectors currently attracting local investment and which has created over 2,000 new jobs since privatization. Local processing of cashews may become unprofitable if raw cashews fetch higher prices abroad at a time when private local processing is in its infancy.

Source: African Business, May 1997, p.27.

19. An indirectly negative impact of trade liberalization on diversification may be felt in developing countries where trade taxes are a significant source of government revenue. If liberalization of international trade leads to an abrupt reduction in government revenues, such shortfalls need to be compensated from other sources so as to avoid a decline in the provision of public services

and not jeopardize the economic environment for development and diversification. Boxes 4 and 5 give examples of successful generation of resources for supporting diversification.

Box 4

Financing of diversification in Colombia

Diversification out of coffee has been a long-term goal in Colombia and generating the necessary funds for this purpose was an important aspect of policy implementation. The association of coffee producers drew up its first five-year diversification plan in 1960, funneling resources from the coffee sector into the development of other products. Some of the revenues from a tax on major exports as well as import taxes were used to finance research and development on alternative production and export possibilities; to support the adaptation of existing production facilities to the requirements of the world market; to finance processing factories; to make subsidized credits available to non-traditional export sectors; to identify potential markets and fund promotion campaigns; and to create export marketing companies. Financial rebates, in the form of import tax exemptions and domestic tax rebates, were also available to non-traditional export sectors. The fuel sector was also taxed to finance the development of other mineral exports. A number of export industries created during the 1980s, such as silk production, shrimp farming and passion fruit production, were the direct result of this government support. The Government adapted its support to the needs of each sector. For example, when anti-dumping actions taken by the United States became the main obstacle for flower exports, lawsuits to counter these anti-dumping actions were financed out of the government-administered Diversification Fund.

Source: UNCTAD, 1994.

20. Diversification has often been an explicit objective of trade and investment promotion actions by government, parastatals, or industrial associations.[7] Such actions have included provision of services of marketing boards, the provision of market information, support for marketing offices, services provided by commercial sections in embassies in foreign countries, publicity which promotes the country as a reputable supplier and attractive investment location, and quality control measures to ensure that the reputation of a producer country or sector is not undermined. In many countries, government-sponsored promotion drives have been successful in positioning products with brand names and identified origins.[8]

21. With the reduction in direct support for enterprises in the new policy environment, such services are gaining even more significance as an ingredient of success in diversifying exports and in positioning enterprises more favourably in global commodity chains.

3. Technology policy and information technology

22. Moving towards higher technological sophistication in the diversification process is a crucial ingredient of development. Improved methods for producing and processing traditional commodities can be at least as important as moving into new areas. And moving into new areas, if it contributes to the upgrading of the overall technological capacity of the country, would provide much wider benefits for development through spin-off effects. Government policy regarding access to, and procurement of foreign-patented technology and/or protection of locally generated technology, as well as institutional support for R&D, are key components in determining a country's diversification capacity.[9]

23. Quantum leaps in information technology are a major vector in the globalization of world production and trade. Benefits of information technology include improved management practices and strategic planning at the enterprise level, enhanced assessment of market opportunities, easier market entry and improved adaptation to change. Electronic mail, the Internet and other forms of telecommunications, as well as and the equipment through which they are linked, are burgeoning as a result of technological advances and declining costs. They have radically transformed the patterns and speed of information exchange. It

is estimated that the number of Internet users has doubled annually in recent years (UNCTAD 1997e).

24. Such modernization can be instrumental in opening up trading opportunities for developing countries, since much trade information becomes universally accessible. Any supplier electronically connected to the information network can make instantaneous offers in international markets, and thus participate in the global commodity chains. In recent years, large firms, including commodity firms, have increasingly used information technology to achieve two prime objectives. The first is to give business enterprises a competitive edge, and the second is to develop organization-wide communications to facilitate sound management. Thus, firms have utilized information technology in strategic planning and in the implementation of goals and objectives, in assessing the strength and innovativeness of markets and products, and in assisting enterprises to adapt swiftly to changes in the market place and in the overall international environment.

25. Large commodity-based firms have thus globalized and strengthened their activities and gained an advantage over their competitors, with rapid access to new products and innovataive processes. In this manner, they are able to meet new competition. Information technology has also helped to reduce costs and create new and closer relationships between producers and purchasers in the global market. However, the incremental benefits from such advances in information technology are likely to be bigger for SMEs than for the larger firms, which already have relatively better access to information. For example, small enterprises in Asia are emerging as new suppliers to South American and Central and Eastern European markets, thanks to links established electronically. They are benefiting, among other things, from the fact that electronic mail is far cheaper and easier than international telephone or fax communication (*Economist*, 1997, p. 59).

26. At the moment, however, there is considerable geographical unevenness in the distribution of telecommunications lines. On average there is one telephone line for two people in high-income countries, but in South Asia or sub-Saharan Africa one telephone line serves 100 inhabitants (World Bank, 1997, pp. 273f). Problems are even more acute in rural and provincial areas. The investment necessary in telecommunications alone is estimated at US$ 50 billion for Africa (UNCTAD, 1997e, p. 10). At the enterprise level, investment in hardware and software and training are required to enable especially smaller firms to upgrade their information technology capacity and to ensure that they are visible in new databases. International and public support is needed in commodity-dependent developing countries, coupled with investment by the private sector in communications infrastructure, to ensure that they are not left behind in this crucial area.

4. Agricultural policies

27. Unfavourable terms of trade for agriculture have often been mentioned as one of the main impediments to agricultural development and diversification. Recently, many developing countries have abandoned the policy of supporting industrialization by maintaining agricultural prices low across the board and left prices to be determined on the market, expecting that resources would thus be allocated efficiently and market opportunities would be exploited.

28. Research has shown that the responsiveness of aggregate agricultural output to prices is rather low and the supply elasticity with respect to non-price factors (public goods and services) high, particularly in countries with inadequate infrastructure facilities, lack of capital and lack of private research organizations (Chhibber, 1988, p.45). As most commodity-dependent, structurally weak countries fall into this category, diversification policies need to utilize a multitude of measures and not depend only on prices.

29. A pro-active agricultural diversification policy would need to combine market and production-related interventions. The former relate to the physical and information technology infrastructure necessary to tap, and deliver competitively to, markets. Production-related measures address the productivity and skills level of the sector through research and extension programmes (Delgado, 1995, p.228). Research, training and extension services in agriculture are particularly important for the diversification process, as illustrated in box 5, and diversification is frequently an important objective of such services.

Box 5

Malaysia's diversification:
The importance of research and development

In Malaysia, land development policies were combined with measures to raise productivity of land and agricultural labour. This was facilitated by Malaysia's relatively small population and the availability of relatively ample new land. Furthermore, the inflow of immigrant workers providing cheap labour to estate plantations was tolerated. Diversification was encouraged, for example, through flexible management of replanting grants. Sliding export taxes and other tax incentives, for both local and foreign investors, played an important role in vertical diversification.

As a result of land development, the area covered by oil palm plantations increased substantially in the 1970s. Diversification into cocoa during the early 1980s was initiated mainly by the price responsiveness of farmers and sustained by government-sponsored research on high-yielding hybrids. For both crops, research and development activities allowed a steep increase in productivity, the expansion of processing activities, and in the case of palm-oil, development of new end-uses. A strong expansion of world demand for palm oil contributed to the success of this product, while enhanced productivity kept cocoa production profitable despite declining world market prices. A partial ban on the export of logs contributed to vertical diversification in the forestry industry.

Effective institutional partnership between the Government and the business community and sound macroeconomic policies encouraged investment. Innovative export-related financial incentives helped in penetrating new markets, particularly in other developing countries.

Research and development activities were crucial in improving Malaysia's competitiveness. This was generally financed from within the respective commodity sector, through a levy on production (palm oil) or production and exports (rubber). The application of agricultural research helped keep within manageable limits the divergence between agricultural and industrial productivity and stemmed the marginalization of rural areas. Moreover, the expansion of domestic processing activities with relatively high technological sophistication contributed to raising the overall skill level of the labour force. This served as an attraction for foreign investors not only to commodity processing but other areas as well, facilitated the transfer of technology, and led to a trickling down of higher productivity to a wider portion of the Malaysian economy.

Source: UNCTAD, 1995b.

30. However, success in research, training and extension requires, apart from a solid scientific foundation, factors such as sufficiently high ratios of extension workers per farmer, the availability of means of transport for extension workers, and a socially sensitive focus that takes into account the fact that many agricultural production activities are the responsibility of women. Box 6 provides some suggestions by NGOs working in this area. It is often observed that export-oriented agricultural production gets much of the attention in research and extension work, which may be good for export diversification but less so for food security and possibly for poverty alleviation. Training and extension programmes that make a significant positive contribution to diversification have been reported in many countries, including commodity-dependent African countries (UNCTAD, 1997d, p.10ff).

Box 6
Some advice from NGOs about diversification

A survey by UNCTAD among NGOs active in rural areas highlights the following approaches:

(i) Contact farmers' groups, not individuals;
(ii) Go to the farmers and learn about their real needs. First listen, then act;
(iii) Fit your knowledge to farmers' practical experience;
(iv) Promote crops and practices that are suited to local conditions;
(v) Don't propose farming systems that depend on high-cost inputs;
(vi) Introduce not only new varieties, but also the cultivation practices they require;
(vii) If you recommend a new practice, make sure the necessary inputs are available;
(viii) Help farmers to find markets for their produce;
(ix) Since chemical fertilizer is expensive, give training in the use of organic alternatives.

31. Some successful agricultural diversification schemes and extension work have focused on individual farmers willing and able to take risks rather than promoting a particular crop among a wide spectrum of farmers. In principle, middle-sized farms are more likely to diversify. They can finance this either from their own, albeit small, savings or from loans extended using their land or crops as collateral. They are also relatively easily reached by training and extension services. Poorer farmers and landless peasants are, in general, not able to take the risks entailed in diversifying their crop.[12] They are too vulnerable economically, usually shut out from credit, and possibly not able to afford the time to involve themselves in training schemes, even when these are aimed at them.[13]

32. Hence, a policy dilemma is posed by the structure of agriculture in low-income developing countries, where the majority of farm households are smallholders or landless. If diversification is the primary objective, measures will indeed focus on the more competitive farms, supporting them via advisory services and training and exposing them to market opportunities in upgraded traditional crops or new ones. If, however, diversification is to serve broader social goals, removal of the barriers that hinder the participation in this process of vulnerable groups - smallholders and landless peasants, women farmers and women-headed households, farms on ecologically fragile land - needs to be made an integral part of diversification programmes. Otherwise, existing rural income divides will remain and perhaps intensify.

33. Another crucial dilemma of diversification is the "adding up problem" which occurs when demand does not increase commensurately with supply. Programmes which copy a successful diversification endeavour launched, for example, by a neighbouring country, or respond to sudden surges in world prices which can be temporary, may easily backfire because markets can easily be saturated or products substituted. In such cases, specialization in a traditional cash crop for which the global demand is much larger and marginal additions to output may not affect prices may be the better choice.

34. The crucial point is to foresee the supply-demand balance. This requires good access to continually updated information and the utilization of sophisticated analytical techniques. Moreover, particularly in a privatizing world, the findings of such analysis need to reach the actual producers instantaneously, and this calls for efficient cooperation and clear communication channels between the Governments or other organizations carrying out the research or accessing the information and the entrepreneurs making production decisions. Information technology can considerably facilitate such communication.

35. One of the principal factors causing the "adding-up" problem is the inertia of higher-cost producers or their sheer inability to switch into alternative products. This may be caused by a lack of information and skills, fixed investments specific to the production of the current product, or physical and climatic factors. Alleviation of such "exit barriers" through technical assistance and bridging finance might allow market forces to allocate resources more efficiently, to the benefit of both producers and consumers. In fact, new low-cost entrants may reap higher profits if they enter into cooperation agreements with higher-cost producers who would like to diversify out of the particular product and assist them financially and technically in this respect. This could well be a worthwhile investment, as it may also lead to higher and more stable prices for the new entrants.

5. Mineral policies

36. Policies which address the exploration for and exploitation of mineral resources are of particular relevance to diversification endeavours by the private sector in mineral-rich countries. These policies include formulation of legislation on mineral rights and investment, taxation and land use. They also cover the provision of training and infrastructure necessary for mining operations.

37. Mineral resource development may provide a boost to developing economies otherwise poor in natural and human resources and allow rapid economic growth, provided that the problems of macro-economic stability associated with mineral dependence, in particular the influence of mineral revenues on the real exchange rate and the effect of mining wage rates on overall wage levels, can be mastered. The income arising from mineral exports, of which a large portion usually accrues to the Government in the form of taxes or royalties, can be channelled to investment in human and physical capital in other sectors through the use of mechanisms such as stabilization funds, thus supporting diversification of the economy more broadly.

38. The channelling of some part of mineral revenue into other sectors is particularly important, since mineral resources are exhaustible and proceeds from mineral sales will not continue indefinitely. The depletion of a large mineral deposit can have serious detrimental effects both on the national economy and on regions dependent on mining. The avoidance of these effects requires pro-active policies with a long-term perspective on the part of the Government. Box 7 provides an example of a mining project that aims to contribute to the diversification of the local economy in Papua New Guinea.

B. Enterprise sector strategies in diversification

39. Whilst progress in a country's diversification is conventionally measured at the aggregate macroeconomic level, it is firms and enterprises that are the actual agents implementing and determining the speed and direction of diversification.

40. In many countries privatization of public enterprises is taking place and marketing boards are being abolished. The need for a greater link between the private sector and governments to achieve diversification is more important now than ever before. It is, therefore, relevant to see what kind of strategies are followed by enterprises that contribute to the diversification of the economy, the factors that affect their decisions, and the importance of inter-firm relations, including the place of such firms in the global commodity chains and industrial clusters.

Box 7

Mining-led diversification and local communities - the Misima mine in Papua New Guinea

Diversification will inevitably change production patterns and impact on life styles, particularly when new production activities are introduced in remote or isolated areas, as is often the case with mining projects. The Misima mine provides an example of how the exigencies posed by a mining project which diversifies the economy can be reconciled with the interests of local communities and at the same time promote further diversification.

Misima Island is part of the southern islands of the Papua New Guinea archipelago. The population is 9,000. Misima islanders depend mainly on subsistence farming. Cash crops on the island are copra, cocoa and coffee. It was in this largely subsistence agriculture environment that the Misima mine was opened in 1989. The mine is a conventional open-pit gold mine with a planned mine life of 10 years.

Before construction, the mining company, Placer Pacific, consulted extensively with the local communities. The Misimians requested that significant benefits flow to the community at large as a result of the project but not at the expense of changing their way of life, culture or values. To achieve this objective, the mining company undertook a number of initiatives. The company recruits only Misimians for the national component of the workforce and the expatriate staff is kept to a minimum. It constructed and/or upgraded island roads in order to allow all employees to continue to live in their home villages and within their customary society. The company developed long-term infrastructure, including an air strip and air terminal, upgraded the hospital, built a new police station, developed two ports, linked telecommunications to the national system, created housing subdivisions and built classrooms. Finally, it developed and supported an active business development programme intended to facilitate production and exports of cash crops with a view, in particular, to diversifying the production structure and alleviate the effects on employment and the local economy of the eventual closure of the mine.

Two points are worth noting: first, priority was given to employment of the traditional landowners most affected by the mining project, while also ensuring that employment was spread across the island and partially into the surrounding archipelago. Second, a social monitoring committee, composed of representatives from the mine, police, church, landowners, Misimian women's groups, district and provincial governments and the national Government, was created. Through this group the evolution of social impacts was monitored through project construction and operations. Changes were identified and remedial action taken as required.

The situation following the eventual closure of the Misima mine will be the true test of the success in achieving the objectives of the people of Misima Island when they agreed to have the mine, namely to reap the profits while the mine operates and, upon its closure, to return to their traditional way of life with a more diversified economy and significant improvement in living standards.

Source: Clark and Cook Clark, 1997.

1. *Corporate-level decision-making*

41. Diversification within a firm appears easier in formal-sector processing industries which have easier access to information and finance. Although smaller firms with lower sunk costs can display more flexibility, in cases where increasing returns to scale prevail, larger firms will tend to enjoy better preconditions for diversifying.

42. Enterprise diversification is often a result of organic growth through internal investment and loans. More recently, the emergence of stock markets and broad-scale privatization of public enterprises have led to new forms of enterprise growth through equity and acquisitions.

43. Firms in developing countries tend to diversify more broadly than those in developed countries, principally because their skills are often of a general nature and not product-specific. This allows easier applicability to diverse

activities and relatively easy entry into new areas at comparable skill levels. On the other hand, a lack of proprietary technology on the part of developing country firms and the specific demand characteristics of their domestic markets which accept lower-quality products do not augur well for growth into higher-quality niches. Instead such firms tend to compete on the basis of price and reliability at the lower or middle layers of varied, and sometimes unrelated, product markets (Amsden and Hikino 1994; Nachum, 1997).

44. The findings of a recent survey undertaken by UNCTAD (Nachum, 1997) covering large firms in developing countries which have diversified from a commodity base show that these firms which have diversified away from a commodity base display certain common characteristics in their diversification process. Firms which have diversified vertically tend to be the largest in terms of their turnover, but are among the less profitable and achieve the lowest rates of growth. The best growth performance is achieved by firms diversifying into related areas, while diversification into unrelated areas yields the highest profits but slow growth.

45. The surveyed firms sell most of the output of the new activities into which they diversify, principally on domestic markets, suggesting that diversification decisions are undertaken mainly in response to domestic demand. Firms generally diversify into areas which are either related to those in which they are already dominant or into areas where their established brand names are expected to ensure success. It is likely that this reflects a perception that domestic markets are more secure. This perception is also reflected in the finding that securing markets before actual diversification is common among those firms which do sell their new products abroad. The most common methods of achieving this are to obtain sales agreements with companies in destination markets or to establish joint ventures with foreign companies with an established brand name.

Box 8

Government policies and firms' diversification decisions

A recent UNCTAD survey (Nachum, 1997)of large firms in developing countries indicated that an overwhelming majority of them perceive government policies as having little impact, if any, on their diversification decisions. When there is an impact, financial incentives are considered to have been the most effective.

In spite of this negative view, African firms consider the policies of their Governments, especially financial incentives and assistance in identifying diversification opportunities, as having exerted a favourable impact on diversification. In Asia, the total incentive package which created an overall environment conducive to expansion of business activities was considered vital. By contrast, Latin American firms consider the policies of their governments to have had the least influence on their diversification activities. Moreover, firms in this region, far more than those in other regions, are of the view that government policies were actually a critical obstacle to the implementation of their diversification plans. Political uncertainty - lack of stable and rational rules of the game, and high inflation - were considered most disturbing. Political interference in the regulatory and legal framework implied high uncertainty which made investments very risky. Creating an overall favourable environment through price stability, reliable economic growth and development prospects, and access to international capital markets were key demands they made on government policy.

Firms' views of the impact of government policies on their diversification have changed over the last two decades. Many countries have gone through substantial liberalization of their economies during this period and firms find that this has modified policies favourably. Firms increasingly appreciate the assistance provided by Governments in the acquisition of new technology and in training for upgrading skills.

The fact that the UNCTAD survey focused on large firms may have led to a biased view regarding the significance of government policies on diversification decisions. The smaller firms are more likely to be in need, and under the influence, of such policies.

2. *Foreign investment*

46. Foreign capital is another means for diversification. It has been instrumental in the restructuring, upgrading and diversification processes of many developing countries. (UNCTAD, 1995a, pp. 125-224). Over the past several decades, FDI and strategic alliances and joint ventures have begun contributing to vertical diversification through the establishment of processing plants in developing countries.

47. In Africa, FDI has been concentrated mainly in the mining sector. The increase in such investment in the 1990s which followed a lull of two decades is mainly a result of the liberalization of FDI regimes. This has prompted diversification in those instances where government policy pursued a deliberate strategy of funneling proceeds from such investment into other developmental activities.[12]

48. FDI from developing countries is emerging as a new source of capital inflows. Developing country investment tends to be oriented towards subregional and regional markets; regional trade arrangements, in particular in South-East Asia and in Latin America, appear to have been a major factor shaping these South-South FDI flows. A fair share of commodity-relevant FDI is directed into agrobusiness and foods, mining, metals and construction materials. As with intra-firm growth patterns, developing country FDI typically enhances diversification into products or processes that are related to the core business, making use of product-specific knowledge or familiarity with markets and regulations (UNCTAD 1995a, pp. 26-36).

3. *Inter-firm relations*

(a) Commodity chains

49. Globalization may reinforce traditional relations of dominance between firms. Nevertheless, with the increasing availability of skills and information, firms in developing countries are able to find more ample and potentially profitable points of entry to, and opportunities for, effective participation in commodity chains. Understanding the dynamics of these commodity chains and the ability of management to position the firm at the appropriate link in the chain are major requirements for diversifying successfully in the context of the globalized economy.[13]

50. The relative strengths of producers, different processors and traders in the chain depend on the characteristics of the product, technical requirements, market structures, and the organization of trade. In the case of low-price or low-quality commodities which are often traded in bulk, the commodity chain is typically dominated by large international buyers, with the result that producers play an essentially reactive role, especially if the production process can easily be moved to another area, as has been observed for many mass-produced, low-end products, including the low-price segment of garments and footwear. In the case of rare, sophisticated, or niche commodities which are often produced and traded in small batches or rely on freshness or novelty, as well as for income-elastic products, the demand for which exhibits rapid growth, producers potentially have more influence, even where large buyers dominate the chain. The capacity to produce according to specific requirements relating to quality, health and the environment or consumer tastes is a determining factor in this respect.

51. Developing country enterprises can also reach a better bargaining position when they have access to an especially competitive supply and when they enjoy economies of scale, as well as capacity for product and process innovation. This transition into specialized, brand name or niche products and vertical diversification could therefore allow producers to have a bigger say in the commodity chain and attain higher revenues, as well as price and revenue

stability. Box 9 provides one illustration in this respect.

52. In addition to production for high-value market niches, diversification into expanding product markets and into commodities in demand in dynamic regions offers a potential to upgrade the producing economy's position in the commodity chain. The challenge is to identify those market opportunities. Business associations can assist by undertaking market research to help identify such trends. Governments and international organizations can also help in this regard.

Box 9

From buyer-driven to producer-driven production through product specialization in Thailand

During the 1970s, Thailand's smallholder-dominated natural rubber sector was linked to international markets by a group of Thai rubber exporters five companies handling around 75 per cent of exports) working with Japanese trading companies which, in turn, supplied the four major international tyre producers. Eventually, to eliminate unevenness in the quality of the raw material, Bridgestone introduced quality control by placing technicians in the rubber- producing areas and purchasing directly from the smallholders. Subsequently, the Japanese trading houses also adopted this strategy. Bridgestone remained active in encouraging producers to upgrade initial processing stages and the Bridgestone standard was applied by other buyers as well. The outcome was considerable improvement in the quality of the rubber. Eventually, producers began by-passing the Thai trading houses. Given the smallness of most producers, however, this resulted in a stronger bargaining position for the buyers.

With the improved quality, by the end of the 1970s Thailand was benefiting from competition among the major tyre producers to obtain high-quality Thai rubber and succeeded in diversifying its export destinations and expanding output. In the course of the 1980s, technological upgrading, process innovation and high capital investment led to a strengthening of Thailand's position in the world natural rubber economy.

(Source: Shigetomi, 1995).

(b) Clusters and networks

53. Clustering and networking of economic activities takes place in industrial districts - geographical concentrations of individual enterprises in related activities - or networks of enterprises connected through business arrangements. Such groupings provide a crucial service by facilitating access to, and promotion of, information regarding markets and technology. They can also reduce overhead costs by mutual implementation of contracts, joint purchase of inputs, jointly funded ancillary services or joint marketing initiatives(Nadvi and Schmitz, 1994). Thus, they may represent a modality for successful participation in global commodity chains. Commodity-based clusters may emerge, for example, from a simple mining or cultivation operation which, in due course, proceeds into processing, branches out into producing the equipment or inputs required for harvesting, mining or processing, develops technologies and, eventually, exports these along with the initial commodity.[13] Box 10 gives some details about commodity-based and clustered activities in Brazil. This process often generates an environment where managerial and technical skills are enhanced not only in the firms involved but also in other enterprises. Clusters have sometimes been nurtured by buyers' requirements for quick delivery to fashion or niche markets. Exporters are able to enter into subcontracting arrangements with local SMEs and micro businesses. This spawns clusters which in turn reinforce this ability through communication networks and technology sharing.

54. Clusters of small and medium-sized enterprises can facilitate efforts by Governments or business associations to foster diversification. At the same time, the clustering of enterprises can facilitate the provision by Governments or business organizations of energy and transportation, technology or support for trade promotion (Humphrey and Schmitz, 1996).

Box 10

Commodity-based clusters in Brazil

There are over 40,000 production enterprises in the Santa Catarina State of Brazil. The agro-industrial sector, comprising 1,300 enterprises, contributes around one-third of the state's export revenues and employs roughly 10 per cent of the labour force. Its largest segment, in terms of turnover, is the cluster around **pork and poultry production and processing**. Contract farms raise the animals, with the processing companies providing animal stock and feed, technological advice, and quality control. The area has several large meat processing enterprises - such as Sadia - one of the largest meat processing complexes in the world, and Perdigao Agroindustrial. Interestingly, the region is also emerging as a producer and exporter of refrigeration equipment. While pork production is mainly processed for consumption in Brazil, roughly 70 per cent of the processed poultry is exported. The Santa Catarina area has achieved a world market share in chicken of over 10 per cent. Know-how which evolved from pig raising, the original focus of livestock farming, was successfully transferred to poultry raising. To cater to niche markets, poultry processing has been fine-tuned to be able to deliver 2,500 different types of poultry cuts. The larger firms in the meat cluster have diversified into other foods such as refined vegetable oil and fruit juices.

Local clays are the basis of the **ceramic tiles** industries which generate 25 per cent of the state's export revenues (US$100 million (1996)), exporting to 60 countries and accounting for about 100,000 of the state's 365,000 workplaces.

Another cluster is the **forestry** industry which includes cellulose, paper, wood and furniture factories. The latter have made inroads notably into European markets; furniture exports have increased by 150 per cent since the early 1990s.

Several factors appear to have played an important role in this case of clustered development. First, the businesses are situated in a dynamic environment which appears supportive of diversification into new products, adaptation of new technologies, and opening up of new markets. Secondly, several industrial support associations, such as an International Trade Center (FIESC) and the Secretaria de Estado do Desenvolvimento Economico e Integracao ao Mercosul actively promote the economic development of the region. Thirdly, the state government has taken responsibility for social and economic infrastructure. For example, it provides vocational training and skills upgrading. It promotes port and other infrastructure development and supports institutions such as an export processing zone and warehouse cooperatives.

However, the efficiency of these clusters is paired with the displacement cost suffered by small agricultural producers. Within the food segment, for example, rationalization, standardization and concentration have reduced the number of farms delivering to the large processing firms from 80,000 during the 1970s to 25,000 in the mid-1990s. While the middle-sized, more efficient farms have benefited from the agro-industrial development path, the smaller farmers have been marginalized, pushing many into migrating to urban slums.

(Based on information provided by Secretaria de Estado do Desenvolvimento Economico e Integracao ao Mercosul, and FIESC Florianopolis, Brazil.)

C. The socio-institutional framework

55. A discussion of diversification in commodity-dependent countries would be incomplete without examining the role played by societal institutions. This "soft" dimension of development frequently escapes analysis by the conventional tools of economics, although it shapes the decisions and processes underlying the diversification process.

56. Societal rules and traditions together create the framework in which economic activities take place. This framework is often as important as the market and government actions in determining production and trading decisions.[15] Understanding how it works can provide guidance on how to design more effective policies and organize the provision of public services more efficiently. Moreover, the inclusion of a wide range of societal groups in decision-making

and implementation processes may help ensure that diversification incentives are not diverted as rents for privileged groups, but funneled into productive diversification (North, 1995, p.23; Toye, 1995, p.59).

57. In their commercial operations, producers and traders tend to develop "personalized" and repetitive relationships founded on gender, kinship, ethnic, caste or other personal, i.e. non-market, ties. These serve to reduce risks and transaction costs by guaranteeing delivery, ensuring quality control, procuring reliable information, reducing tedious bargaining processes, and providing access to finance (Jaffee and Gordon, 1993, p.21 f; Nadvi and Schmitz, 1994, pp.23, 31; Boserup, 1986;). Traders' networks among women, for example, function well in many West African and South-East Asian low-income economies, where they predominate in cross-border trade, especially in foods, agricultural inputs, and basic consumer goods. Similarly, financing is often handled by informal groups reliant on personal or gender links (Gayi et al, 1995; Ghate, 1992). Socially based relations also regulate the entry into particular productive or trade activities and provide informal types of training and market development support.

58. The relationships prevailing among the constituents of clusters described above often rely to a considerable degree on family, tribe, clan, caste or ethnic ties, as well as regional affinity. Such relationships have been significant in underpinning the trust necessary to undertake joint purchasing or marketing activities or in sharing market or technology information (Nadvi and Schmitz, 1994). With respect to international trade or investment flows, expatriate communities have proven a useful conduit for economic interaction between the origin and host countries. One example of this is provided by the "ethnic marketing chains" observed in the fresh and processed foods business.[16]

59. Conversely, to the extent that such networks systematically exclude social groups outside their own, there is a risk that they act as cartels or pressure groups and may create impediments to entry or exit of other producers or traders. In such cases, socially based networks might deter or hinder diversification.

60. The multifaceted nature of relations among producers and traders, in both the formal and the informal segments of productive activities, and the socio-institutional framework which shapes them, could serve as a significant element in the design and implementation of diversification policies and measures. The positive and negative factors characterizing social networks need to be weighed carefully. By revealing ingredients of workable diversification strategies, the analysis of the socio-institutional framework could serve to "expand the menu of policy alternatives, offering positive guidelines for policy interventions overlooked by orthodox economists" (Harriss et al, 1995, p.7; Rasmussen et al, 1992).

IV. CONCLUSIONS AND RECOMMENDATIONS: A PROACTIVE AGENDA FOR DIVERSIFICATION

61. **On the multilateral trading system:**

(a) Commodity-dependent developing countries need a clear understanding of the Uruguay Round obligations and commitments so as to recognize the full range of options available to them in support of diversification.

(b) Commodity-dependent countries need to formulate a proactive and positive agenda for forthcoming multilateral trade negotiations reflecting their requirements for diversification. Modalities should be sought to include financial and technical support for expanding the supply capacity of these countries as an integral part of future trade negotiations.

62. **On an enabling domestic environment for diversification:**

(a) Governments need to ensure that property rights are clearly defined and secure. Land reform would be an important consideration in this respect.

(b) Measures conducive to diversification appear to be more successful when they focus on middle-income farms and enterprises. In situations of limited resources, this may result in neglecting poverty alleviation. The risk of polarization which, in the long term, could undermine diversification efforts, calls for further policy research and remedial action so as to reconcile conflicting policy objectives.

(c) Responsibilities of central and local-level governments need to be delineated clearly. Local-level governments are crucial in the implementation of diversification programmes. In many cases, their capacity needs to be upgraded, and measures taken to ensure that the diversification process is participatory and that all stakeholders are heard.

(d) Governments need to attach priority to the provision of infrastructure necessary for diversification, especially with respect to the development of exports.

(e) In commodity-dependent countries, domestic funds for diversification need to be generated from within the commodities sector itself. There is,therefore, a need for elaborating mechanisms to earmark and transfer funds which could function as venture capital to stimulate diversification into non-traditional commodities and processed products.

(f) Training of human resources is a crucial factor in diversification and should include the following:

(i) Training and research on sophisticated technology which is conducive to diversification into new and more profitable processes and products beyond the current rung on the technology ladder;

(ii) Enhancement of skills at the intermediate level which serves to improve productive flexibility and facilitates continual diversification;

(iii) Basic extension services which are required to enable SMEs and small agricultural producers to upgrade their activities above the subsistence level and diversify.

(g) Networking of training and research institutions with production entreprises has significant benefits in terms of external economies, cost-sharing, and the development of centres of excellence. Such networks could be co-sponsored by central or local governments, business associations, or parastatals.

63. **On the enterprise sector:**

(a) The basic essentials for the identification of market opportunities are often lacking in many commodity-dependent countries. Training in this area would be highly beneficial for enterprises which are seeking to expand their trade horizons, as well as for government officials assisting them.

(b) With a view to expanding investment in horizontal and vertical diversification, the business community needs to identify specific impediments, to formulate realistic modalities to overcome them, and to enlist the assistance of Governments as appropriate.

(c) There may be a case for low-cost new market entrants to assist high-cost producers facing exit barriers to move out of their established activities, thus alleviating the adding-up problem.

(d) Information exchange, joint marketing and trade promotion improve the bargaining position of producers and traders. The cost of such measures may

need to be shared between the benefiting firms, the developing country Government and, in the case of low-income economies, the international donor community. In this connection, the establishment, structure and functions of a new generation of business-oriented marketing boards might be a subject for further exploration.

(e) Enterprises may need to review the strategies they use to position themselves in the commodity chain and to identify market opportunities based on product characteristics (such as niches, small batches, quick reaction, freshness, novelty, high unit value, process-based, etc.). Organic products may merit particular attention in this respect.

(f) Clustering of enterprises lowers transaction costs and can be conducive to diversification. Further action-oriented research could explore natural-resource-based cluster experiences in commodity-dependent economies, distill from them those factors that led to horizontal or vertical diversification, and formulate proposals with a view to enhancing the contribution of clusters to diversification.

64. **On socio-economic dimensions of diversification:**

(a) Socio-cultural ties are often crucial in production and trade. Understanding how they work can give insight(s) into the diversification process. Further research at the microlevel might reveal significant social factors influencing diversification decisions, and lead to better policy design.

(b) Small producers and SMEs have difficulties in accessing finance because they lack collateral. Micro credit schemes are therefore required to enable them to handle the transaction costs and economic risks associated with diversification. This entails strengthening the social institutions which are instrumental in providing such finance. The international community has an important role to play in supporting these efforts.

65. **On follow-up:**

The conclusions and recommendations summarized above may assist Governments in deciding on those areas in which they would like to pursue further work in the UNCTAD framework, including in terms of expert meetings and technical cooperation activities.

NOTES

1. See "Report of the Commission on Trade in Goods and Services, and Commodities on its first session" (TD/B/COM.1/6, Annex.IV).

2. However, as described in some detail for food products in UNCTAD 1997b, the impact of tariffs levied in importing markets on the trade performance of developing country exporters is inconclusive.

3.For example, the Uruguay Round Agreements exempt the Annex VII group- the 48 least developed countries plus 20 other countries with a per capita GNP below US$1,000 - from many of the provisions or grants then a longer implementation period. Special and differential treatment under Article 6 (Paragraph 2) of the Uruguay Round Agreement on Agriculture allows a special category of production support policies for developing countries. These are agricultural input subsidies, investment subsidies, and support for producers to encourage diversification from the growing of illicit narcotic crops. These exemptions present opportunities for facilitating horizontal diversification. For a detailed discussion of the implications of commodity-related agreements under the Uruguay Round Agreements, see UNCTAD, 1995c, pp.5-11 and UNCTAD, 1996 especially pp.156ff. Also see TD/B/COM.1/13 under agenda item 4 of the Commission's session.

4. For a discussion on risk factors at the macro and farm levels, see Quiroz and Valdés, 1995.

5. For example, the development of fruit production and exports in the north-east of Brazil and of maize and tapioca in inland areas of Thailand were only possible when means of transport became available. In Kenya, fresh product exports have been constrained by a lack of adequate common-use cold storage facilities at Nairobi airport. Some large production and exporting companies have their own cold storage facilities but those available for small exporters are said to be inadequate. This has two adverse effects: (i) it limits the possibility of pre-cooling the produce, a process that is favoured by EU importers, and (ii) it makes small exporters especially vulnerable if cargo space is not available as planned (Stevens, 1991).

6. The merits and demerits of protectionist measures in respect of economic development and diversification have been studied extensively, and no attempt is made in this report to re-open the discussions, apart from referring to some aspects which seem to be directly relevant to the diversification process.

7. In Thailand, for example, successive five-year development plans launched by the National Economic and Social Development Board have favoured export orientation and diversification through measures such as tiered wage rates, duty rebates on imported capital goods inputs, and promotional measures benefiting agro-industries. The Government opened tracts of land, invited foreign investment into dairy and cattle farming, introduced resilient strains of maize and tapioca and subsidized loans for the cultivation of crops crucial in agro-processing. Local processing was encouraged, for instance, via an export tax on unprocessed cane sugar and preferential loans to sugar processing factories. (Phongpaichit and Baker, 1995, pp. 51-55). Similarly, the Government of the Dominician Republic granted income tax and duty exonerations, tax credits and inexpensive access to land rededicated from the traditional crops (coffee, cocoa, sugar, tobacco) to non-traditional ones. In response, more than 120 firms were established or expanded, and exports of non-traditional agricultural commodities and agro-processing products roughly doubled in value terms between 1979 and 1989 (Raynolds, 1994, p.147).

8. For instance, in Sri Lanka and China, government-sponsored promotion drives were successful in positioning brand tea in world markets; in Colombia, Kenya and Jamaica, government-driven generic advertising supported the respective countries' coffee exports (LMC, 1997, p.35). In Israel, the Citrus Marketing

Board functioned as a single exporter and thus ensured a strong bargaining position for Israeli exports well into the early 1990s (Jaffee and Gordon, 1993, p.78f). In Uganda, the Government adopted an Export Diversification Plan 1992/3-2002 bringing together a variety of earlier trade-promotion measures: export-oriented sectoral policy decisions, an Export Credit Guarantee Scheme, strengthening of the Bureau of Standards and the Export Policy Analysis and Development Unit (Van der Geest, 1997, p.193f). The latter commissioned studies on new floricultural and horticultural products, as well as on crops that were traditionally traded in the informal sector. In Kenya, the Horticultural Cooperative Union was instrumental in promoting the off-season vegetable trade in Europe from as early as the 1950s (Jaffee and Gordon, 1993, p.75).

9. For the role of a key Chilean research centre in this connection, see Jaffee and Gordon, 1993; Agosin, 1997).

10. For example, in several coffee-producing economies, coffee, the more remunerative crop, is cultivated by the better-off farmers, while the weakest households that cannot afford to wait out the growth period of coffee plants, and cannot risk a failed crop, fail to diversify into the more remunerative production line. They grow food, often for subsistence only. See, for example, Wyeth, 1989, for the Honduras experience.

11. For a contradictory view, see Nerlove et al, 1996.

12. A case in point is Botswana, a country reliant on rich mineral resources, which has succeeded in tapping FDI inflows to expand its mining sector and to develop diamond cutting and polishing. The latter has benefited from a combination of foreign direct and government investment. Mineral taxes and royalties finance roughly 50 per cent of the government budget, which is devoting an increasing share of its expenditure to social infrastructure (UNCTAD, 1995d, pp. 37-42).

13. For a thorough discussion on global commodity chains, see Gereffi et al, 1994; von Kirchbach and Delachenal, 1996; Raynolds, 1994; Griffon and Hugon, 1996.

14. For instance, the cluster around the soya bean industry in Argentina has gone through all these stages. In Colombia, in order to make fruit exports cheaper, local packaging firms emerged - which in turn stimulated the development of local design agencies. The packaging needs stimulated the use of sugar bagasse for production of paper which subsequently was used in other products. As a result, Colombia is now the world's largest exporter of 'pop-up' childrens' books.

15. For example, a study on the historical experience of two coffee marketing boards found that, despite identical organizational structures, their results varied because they were embedded in two different institutional environments. One was highly efficient, paying competitive prices to farmers and organizing research in agronomy; the other exceeded its authority and undermined the performance of the country's coffee producing sector. See Bates, 1995, pp.42ff.

16. Asian-owned export firms in the Dominican Republic, for instance, succeeded in establishing oriental vegetables in the US market by targeting relationships with Asian immigrants' import businesses, ethnic groceries, and speciality restaurants. Family or business ties between South Asian immigrant communities in Kenya and in the UK were instrumental in launching Kenyan fresh vegetable exports in the UK market (Raynolds, 1994, pp.75f, 154f). Ethnic marketing chains have also played a role in international poultry marketing. Cases in point are the Sadia firm in Brazil, whose European-origin owners have made forays into European markets, and Charoen Pokphand, Thailand, where its Chinese origin helped the company to establish poultry farms and processing plants in China and other regional countries.

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WAYS AND MEANS FOR IMPROVING THE OPPORTUNITIES FOR THE EXPANSION OF EXPORTS OF GOODS AND SERVICES FROM DEVELOPING COUNTRIES

Report by the UNCTAD secretariat

CONTENTS

		Paragraphs
	Introduction	1
I.	Dynamic markets and export sectors	2 - 9
II.	Trade in goods: barriers and constraints	10 - 26
	A. Market access conditions	10 - 20
	B. Supply-side constraints and policy options	21 - 26
III.	Trade in services	27 - 45
	A. Market access issues	30 - 36
	B. Electronic trade	37 - 40
	C. Supply-side constraints and policies	41 - 44
	D. Statistical constraints	45
IV.	Scope for future initiative	46 - 62
	A. Improving market access	47 - 53
	B. Initiatives on the supply side	54 - 55
	C. Preparing for negotiations	56 - 62
Annex:	UNCTAD's electronic tools for trade analysis and negotiation	

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INTRODUCTION

1. This report has been prepared to assist the Commission on Trade in Goods and Services and Commodities in its consideration of item 4 of the provisional agenda for its second session (17-21 November 1997). The approach adopted is to present a brief analysis of a series of factors which may serve to restrict opportunities for the expansion of exports of goods and services from developing countries and suggest action to be taken by the Commission, including technical analysis by experts to ease existing barriers and constraints. After an analysis of dynamic markets and export sectors in chapter I, problem areas are examined in chapters II and III. Possible action is suggested in chapter IV.

Chapter I

DYNAMIC MARKETS AND EXPORT SECTORS

2. After dynamic expansion during the period 1985-1990, the growth of world trade in goods slowed down somewhat during the first half of the 1990s, due mainly to a deceleration of imports into Western Europe and, to a lesser extent, Japan. In 1996, world exports of goods reached $5,100 billion. The share of developing countries rose from 24 per cent in 1990 to 27 per cent in 1995.

3. Current trends and patterns in international trade can provide some indication of where new trading opportunities in terms of markets and products might emerge for developing countries at various levels of development. Overall, the markets of developed countries remain the largest outlet for exports from the developing economies. In 1995, some 60 per cent of developing-country exports found buyers in developed countries. At the regional level, however, it was developing Asia which represented the most important market for the developing economies, bigger even than the markets of Japan, the United States or the European Union, each of which in comparison purchased fewer goods in developing countries in 1995. However, the bulk of imports of developing Asia from developing countries came from the region itself. For Latin America as a region (though not for all countries), the United States remains by far the largest market, while the European Union continues to be the major outlet for Africa.

4. The markets of developing countries overall have been more dynamic than those of the developed economies. In 1990-1995, total imports of developing countries grew by over 12 per cent, while those of developed countries expanded by slightly less than 6 per cent. South-South trade was also significantly more dynamic than North-South trade in 1990-1995. Exports among developing countries expanded during this period at almost twice the pace of those from the South to the North and doubled in value. At the same time, developing-country exports to the North grew faster than intra-developed country trade. Thus, the developing countries as a group gained market shares in both the North and the South.

5. As in developing Asia, intra-regional in Latin America expanded dynamically in 1990-1995, though it remains much smaller in value terms. By contrast, Africa's intra-regional trade collapsed in the first half of the 1990s, declining at a rate of 9 per cent. At the inter-regional level, developing Asia still recorded relatively strong growth of exports to major developed-country markets, although this growth was not as dynamic as in 1985-1990. Exports from Latin America to the United States picked up considerably in the first half of the 1990s, but lost momentum in the markets of the European Union and Japan. A new encouraging feature is the strong growth recorded in trade between developing Asia and Latin America in 1990-1995. There are also signs that trade between Africa and Latin America is again expanding after its marked decline in 1985-1990. On the other hand, Africa's export expansion came to a halt in all major developed-country markets.

6. Considerable differences in market chances persist between developing countries at various stages of development and income and with different export

structures and supply capacities. The risk of marginalization remains real for many LDCs and other low-income developing countries. In 1995, low-income developing countries (including low-income LDCs, but without China and India) had a market share of barely 1.5 per cent in world trade, and that share had declined slightly as compared to the beginning of the 1990s. Middle-income developing countries fared somewhat better in comparison, with a market share of 5.4 per cent in 1995, although in their case as well the share was slightly smaller than at the start of the decade. By contrast, higher-income developing countries had a distinctly larger market share of more than 15 per cent in 1995. Still, the increase they achieved over the first half of the 1990s was relatively small. The winners in the run for new market opportunities have been the major exporters of manufactures (including China and India) among the developing countries. Their market share in global trade in manufactures amounted to 21.3 per cent in 1995, as compared to 15.2 per cent at the start of 1990.

7. On the other hand, all of these country groups recorded dynamic export performances in a greater number of sectors in 1990-1995. These sectors, which are identified in table 1, can provide some guidance to industries in developing countries in their strategic approaches towards the expansion of export and supply capabilities and the diversification of their production and export structures. The table indicates for each country group the sectors in which a dynamic export performance was achieved in 1990-1995. Within each country group, the growth rate for each sector is given a ranking. The most dynamic sector is ranked as number (1). The table reflects the move from essentially labour- and resource-intensive products (e.g. clothing, footwear, cork and wood manufactures, furniture, forestry products, fishery products, agricultural raw materials, cereals and cereal preparations) into more skill- and technology-intensive output (e.g. electrical machinery and apparatus, telecommunications equipment, non-electrical machinery, automotive products, other transport equipment, power generating machinery, office machines, scientific and controlling instruments) and the increasing diversification of product composition as developing countries advance along the path of economic development.

8. The risk that markets will become rapidly saturated as a result of more and more countries concentrating their export drives on the same sectors is not borne out by experience. As individual developing countries progressively move into higher-value-added goods, they vacate sectors for those which follow on the path of development. Moreover, the export industries in table 1 constitute rather broad production sectors. Intra-industry specialization, product differentiation and differing consumer tastes can help significantly to accommodate export expansion.

9. The above analysis shows a wide range of dynamic sectors, the growing market potential in developing countries and the continuing importance of developed-country markets. However, taking full advantage of export opportunities continues to be hampered by market access barriers and supply-side constraints.

Table 1
Dynamic export sectors[1] of developing countries and territories in world trade, 1990-1995

Sectors	Major exporters of manufactures[2]			Higher-income developing countries[3]			Middle-income developing countries[4]			Low-income developing countries[5] (excl. China, India)			LDCs		
	Growth rate[6]	Market share 1995[7]	Change in market share[8]	Growth rate[6]	Market share 1995[7]	Change in market share[8]	Growth rate[6]	Market share 1995[7]	Change in market share[8]	Growth rate[6]	Market share 1995[7]	Change in market share[8]	Growth rate[6]	Market share 1995[7]	Change in market share[8]
Valves and tubes	30.9(1)	35.9	8.0	30.7(1)	33.4	7.3	28.2(3)	4.3	0.6	33.2(4)	0.0	0.0	32.0(2)	0.0	0.0
Office machines	27.1(2)	35.4	15.5	23.6(2)	28.2	10.0	38.9(1)	4.2	2.7	30.0(5)	0.0	0.0			
Plastics	24.0(3)	14.5	6.7	20.7(3)	14.5	5.6	17.8(13)	1.9	0.6				14.9(9)	0.0	0.0
Power generating machinery	21.9(4)	12.6	6.1	17.4(6)	8.5	3.2	20.0(9)	1.8	0.8						
Organic chemicals	21.8(5)	11.0	4.3	17.2(7)	10.6	2.8	24.2(5)	1.8	0.8	15.5(9)	0.1	0.0	20.5(7)	0.0	0.0
Scientific and controlling instruments	21.5(6)	9.9	4.1	18.2(5)	7.8	2.6	27.7(4)	1.5	0.8						
Electrical machinery and apparatus	20.8(7)	26.3	8.4	16.6(9)	17.8	3.3	22.4(7)	3.3	1.2						
Sanitary and building fixtures	18.2(8)	31.4	10.9				18.4(11)	3.8	1.3	12.5(14)	0.1	0.0			
Paper and paperboard	18.1(9)	7.9	2.9	14.1(14)	6.1	1.5	21.8(8)	2.0	0.9						
Furniture	17.5(10)	24.2	9.3	10.6(20)	12.8	2.1	13.1(18)	7.1	1.8	46.6(3)	0.5	0.4	22.4(4)	0.0	0.0
Pharmaceuticals	17.4(11)	4.4	0.7	15.5(11)	2.4	0.2	11.0(23)	1.2	0.1				10.8(13)	0.0	0.0
Fixed vegetable oils	17.4(12)	39.2	7.3	16.7(8)	37.3	6.0	19.0(10)	15.8	3.8						
Other chemicals	17.3(13)	9.2	3.1	18.3(4)	7.5	2.7							11.5(11)	0.1	0.0
Telecommunications equipment	16.1(14)	38.8	7.1	12.3(16)	25.7	1.0	28.6(2)	3.8	1.9	15.2(11)	0.0	0.0			
Other non-electrical machinery	15.7(15)	9.0	3.0	14.3(12)	7.5	2.1	18.2(12)	0.9	0.4	13.9(12)	0.0	0.0			
Automotive products	15.1(16)	6.6	2.1	15.9(10)	6.7	2.3	10.9(25)	0.6	0.1						
Leather, dressed furskins	14.8(17)	34.4	8.6	14.2(13)	27.5	6.3									
Rubber manufactures	14.4(18)	14.1	3.7	11.3(17)	10.6	1.6	15.8(15)	3.5	1.1	20.9(7)	0.3	0.1			
Manufactures of metals, n.e.s.	14.2(19)	20.6	5.6	10.6(19)	13.4	1.9	11.9(21)	2.2	0.4						
Meat and meat preparation	13.9(20)	11.5	4.0												
Inorganic chemicals	13.7(21)	11.6	3.7				10.9(24)	4.5	1.0						
Other transport equipment	13.4(22)	9.3	3.5												
Iron and steel	13.4(23)	16.2	3.8												

Sectors	Major exporters of manufactures[2]			Higher-income developing countries[3]			Middle-income developing countries[4]			Low-income developing countries[5] (excl. China, India)			LDCs		
	Growth rate[6]	Market share 1995[7]	Change in market share[8]	Growth rate[6]	Market share 1995[7]	Change in market share[8]	Growth rate[6]	Market share 1995[7]	Change in market share[8]	Growth rate[6]	Market share 1995[7]	Change in market share[8]	Growth rate[6]	Market share 1995[7]	Change in market share[8]
Miscellaneous articles	13.0(24)	31.6	7.3				12.9(19)	3.4	0.8	15.4(10)	0.3	0.1			
Photographic apparatus	12.9(25)	23.4	5.4				22.4(6)	2.7	1.3	16.1(8)	0.0	0.0	20.1(8)	0.0	0.0
Travel goods, handbags, etc.	12.4(26)	66.7	4.9				14.3(16)	5.4	0.8	52.1(2)	1.5	1.2			
Footwear	10.9(27)	58.2	8.5				16.4(14)	10.4	3.4	75.4(1)	1.8	1.6	50.6(1)	0.1	0.1
Cork and wood manufactures (excl. furniture)	10.5(28)	35.8	3.2	10.8(18)	13.9	1.4				13.4(13)	1.4	0.3	22.9(3)	0.2	0.1
Non-metallic mineral manufactures	10.3(29)	17.8	3.8							10.4(16)	3.6	0.8	10.6(14)	2.3	0.5
Ores and non-ferrous metals	10.2(30)	13.6	2.6												
Cereals and cereals preparations				13.1(15)	7.3	2.0							22.4(6)	0.3	0.2
Forestry products							13.4(17)	4.6	1.2				11.2(12)	1.5	0.3
Agricultural raw materials							12.3(20)	12.0	3.3						
Fishery products							11.6(22)	20.9	4.0	12.1(15)	5.8	1.2	12.5(10)	2.6	0.6
Textiles							10.3(26)	6.6	1.4						
Coffee, tea, cocoa, spices							10.3(27)	23.8	1.9						
Clothing							10.2(28)	16.6	1.8	23.5(6)	5.4	2.7	22.4(5)	2.0	0.9
Memo: Total Goods	13.6	19.5	5.0	9.4	15.2	1.5	5.2	5.4	-0.5	4.5	1.4	0.2	3.5	0.5	-0.1
Memo item: High-growth export sectors in world trade: Valves and tubes (24.5%); pharmaceuticals (13.7%); office machines (13.3%); fixed vegetable oils (12.7%); electrical machinery and apparatus (11.8%); telecommunications equipment (11.4%); travel goods, handbags, etc. (10.7%); organic chemicals (10.1%); plastics (9.6%); scientific and controlling instruments (9.1%); sanitary and building fixtures (8.6%).															
Memo item: High-growth import sectors in developed-country markets: valves and tubes (21%); pharmaceuticals (14.5%); office machines (11.8%); fixed vegetable oils (9.9%); coffee, tea, cocoa, spices (9.3%); travel goods, handbags, etc. (9.3%); electrical machinery and apparatus (9.0%); telecommunications equipment (8.5%); organic chemicals (8.3%).															

Source: UNCTAD secretariat.

1/ Export sectors with average annual growth rates of 10% and above in 1990-1995.
2/ Hong Kong, China, Republic of Korea, Taiwan Province of China, Singapore, Mexico, Malaysia, Thailand, Indonesia, Brazil, India, Turkey.
3/ GNP per capita US$ 3,036 and more.
4/ GNP per capita between US$ 766 and US$ 3,035.
5/ GNP per capita US$ 765 or less.
6/ Average annual growth rates 1990-1995 (ranking in brackets).
7/ In per cent.
8/ In percentage points.

Chapter II

TRADE IN GOODS: BARRIERS AND CONSTRAINTS

A. Market access conditions

10. The identification of market barriers requires, in particular, information on: (i) MFN tariff rates, peak rates, tariff escalation, unbound rates and tariff quotas; (ii) product coverage and tariff rates of preferential trade arrangements and the limitations on preferential treatment under such regimes; and (iii) non-tariff measures (e.g. quotas; anti-dumping, countervailing and safeguard measures; rules of origin; technical, sanitary and phytosanitary regulations; subsidies; environmental measures; government procurement regulations). Substantial information is provided by UNCTAD's Trade Analysis and Information System (TRAINS) (see annex).

11. Regarding tariff barriers, a number of products of export interest to developing countries remain subject to peak rates and tariff escalation in various markets (see box on peak tariffs). Moreoever, new special safeguard measures under the Agreement on Agriculture in the form of additional tariffs, which can be imposed in certain cases of low import prices or surges in import volumes, are being used by some importing countries almost automatically, irrespective of whether imports really hurt domestic producers. These safeguards have been used in the case of imports of oranges, other major fruit and vegetables, groundnuts, rice, cotton, beef and sugar, as well as some other products.

12. Quantitative restrictions continue to limit exports from developing countries in the textiles and clothing sector. The integration of these products into the GATT, to be accomplished in four stages over the ten-year period 1995-2005, is heavily "end-loaded". Integration has begun with the least sensitive products. No quotas were removed in the markets of the European Union, the United States, Canada and Norway during the first stage of implementation, with one exception only in Canada (i.e. quotas on work gloves). During the second stage, starting on 1 January 1998, products which have been subject to quotas will be included, but will represent only marginal shares of imports into major markets. In terms of 1990 imports, these products accounted in the case of Canada, the European Union and the United States for shares of 0.7 per cent, 3.2 per cent and 1.3 per cent respectively.

13. The early period of implementation of the Agreement on Textiles and Clothing (ATC) saw an intensive use of the transitional safeguard mechanism which permits importing countries to impose new restrictions on textiles and clothing products not yet integrated into the GATT. However, recent WTO panel and appellate body reports on disputes involving transitional safeguards have insisted on full compliance of such safeguard actions with the strict criteria laid down in the ATC and, furthermore, recalled that the ATC, unlike the MFA, is an integral part of the WTO system, particularly as it relates to dispute settlements.

14. The use of contingency protection measures, particularly anti-dumping measures, is increasing in developed and some developing countries. In 1995-1996, 147 anti-dumping actions were initiated by a number of developed countries and nearly 600 definitive anti-dumping duties were in force in these countries at the end of 1996. The sectors targeted by new proceedings in 1995-1996 were food items, chemical products, iron and steel, non-ferrous metals, machinery and transport equipment, textiles and clothing, and other manufactured goods. Anti-dumping proceedings have been criticized on grounds of inadequate examinations as to whether imported and domestic products fall, in fact, within the same quality segment, lax determinations of causality between dumping and injury, neglect of consumer interests and the legal possibility to file new complaints whenever earlier complaints regarding the same import product have been unsuccessful.

POST-URUGUAY-ROUND TARIFF PEAKS

Even after the implementation of all Uruguay Round tariff concessions, a large number of peak tariffs remain in application in major developed and developing countries.

About one-tenth of all tariffs of developed countries exceed 12 per cent ad valorem. In major developing countries, tariffs above 12 per cent are more frequent than in major developed countries, but these peak tariffs largely remain within a range of 12 to 30 per cent and exceed rates of 100 per cent only exceptionally. In some important developed-country markets, there are still numerous products with tariffs above 30 per cent and even with rates of several hundred per cent. However, there are significant disparities between developing countries. While many of them now have a low dispersion of tariffs with maximum levels of 20 per cent or less, there remain a number of countries with high average tariff levels and important tariff dispersion.

More than half of the peak tariffs of developed countries are in the agricultural, fishery and food industry sectors. A large number of these tariffs have resulted from tariffication in the agricultural sector, exceeding 30 per cent or even 100 per cent in many cases and 300 per cent for certain products (notably meat, cereals, sugar, certain fruit and vegetables, dairy products, tobacco products). On the other hand, the peak tariffs on numerous fishery and food-industry products do not, by and large, exceed 30 per cent.

Tariff quotas have been opened in the agricultural sector at lower or even zero duties, but these quotas rarely create substantial trading opportunities for new exporters, as expansions of quotas over the implementation period are small and current access quotas have often been allocated to traditional suppliers. Moreover, the administration of tariff quotas in many cases lacks transparency.

In the industrial sector, most peak tariffs are concentrated in the leather, footwear, clothing and textiles sectors (and within textiles mainly cotton, wool and synthetic fibre products). Peak tariffs are normally within the 12 to 30 per cent range and only exceptionally reach levels as high as 320 per cent (e.g. leather shoes). Numerous peak tariffs are also applied for a wide range of other industrial products, though the picture varies among countries (e.g. plywood, ceramic and glassware, bicycles, trucks, buses, shipping vessels and other transport equipment, consumer electronics and watches). Thus, even in the industrial sector, peak tariffs remain a significant market barrier for exports from developing countries.

Preferential tariff rates offered under the GSP reduce the incidence of MFN peak tariffs for developing countries, in particular for LDCs, which enjoy special treatment (often in the form of duty-free access) provided, of course, the products affected by peak tariffs are covered under the GSP. In the agricultural sector, most of the products for which tariffication has resulted in tariff peaks are not covered by major GSP schemes. In cases where GSP and tariff quotas apply, exports may only benefit from GSP treatment to the extent that they can be accommodated within tariff quotas. As regards industrial products, major developing-country suppliers increasingly lose GSP cover for "peak-tariff" products as a result of country-product and full country graduations.

MARKET LIBERALIZATION IN DEVELOPING COUNTRIES AND SOUTH-SOUTH TRADE

Access barriers to many developing-country markets have been reduced, in part significantly, since the mid-1980s as a result of unilateral trade liberalization, reduction commitments made in the Uruguay Round and the Global System of Trade Preferences (GSTP). In addition, new or revived regional trade agreements among developing countries have opened up new market opportunities in South-South trade on preferential conditions for the members of these arrangements. Trade liberalization by developing countries has narrowed the gap between their MFN tariff levels and those of developed countries, although levels generally remain higher in the developing economies, where tariffs are still relatively important as sources of revenue and tools of development policies. In 1995, the weighted average MFN tariff of the largest developing-country importers in Asia, Latin America and Africa stood at 11.2 per cent, while it amounted to 4.5 per cent in the Quad countries.

Integration groupings among developing countries increasingly aim at the formation of customs unions and common markets, rather than free trade areas, and extend to the liberalization of trade in services, investment and factor movements and the pursuance of other economic, monetary and political objectives, besides removing barriers to trade in goods, including sensitive products. An outward-oriented approach of such integration groupings, where internal liberalization is accompanied by reductions of trade barriers vis-à-vis third-country trading partners, will help non-members to benefit from the growth dynamics of these groupings. Moreover, the gradual expansion of subregional groupings into wider formations at the regional level could also increase considerably market opportunities in South-South trade.

At the interregional level, the GSTP provides for preferential market access among developing countries. To date 43 countries have acceded to the System, among them major developing-country importers. Recently, three more countries (Colombia, Morocco, Myanmar) have joined and another eight countries and MERCOSUR have applied for membership. In their schedules of concessions many of the members grant more favourable access conditions to LDCs on a non-reciprocal basis.

The agreement establishing the GSTP explicitly foresees that the system "will be improved and extended in successive stages, with periodic reviews". Besides extensions of product coverage, across-the-board tariff cuts and reductions of non-tariff barriers, which are not, at present, covered by the GSTP, are important areas for future negotiations. Consideration may also be given to exploiting the trade and development potential of GSTP through cooperation among developing countries in the areas of trade in services, investment and joint ventures.

15. In the area of government procurement, discrimination against foreign suppliers and non-transparent procedures can thwart market opportunities. Furthermore, market barriers resulting from environmental standards and technical, sanitary and phytosanitary regulations affect export sectors of export interest to developing countries. For example, in the fisheries sector, import prohibitions by developed countries have in some cases been justified for purposes of environmental protection. In the same sector, new quality inspection schemes have been, or will be, introduced in major import markets. In exporting countries, compliance with the new systems requires the establishment of comprehensive control systems and special training of personnel at the enterprise level. Exports of leather and leather products by developing countries where traditional processing techniques are still used, especially by small and medium-scale enterprises, are particularly affected by measures related to environmental protection and public health. In the petroleum sector, problems of market access are in many cases caused by the complexity of technical regulations and standards and increasingly by environmental regulations. Moreover, importing countries may

not comply with the principle of national treatment when technical standards are applied. In some markets, the trade-distorting effects of subsidies to domestic industries also act as access barriers in the energy sector. Sanitary and phytosanitary regulations in major developed countries prevent the importation of such products as beef, chicken and other meat products, groundnuts and many food industry products from several developing countries with export potential.

16. In addition, rules of origin can have distorting impacts on international trade and thereby affect market opportunities. The Uruguay Round Agreement on Rules of Origin bans such practices for non-preferential origin rules, but a comparable multilateral discipline is missing for preferential rules. Some countries have applied special rules of origin for the implementation of anti-circumvention measures which aimed to prevent alleged evasions of anti-dumping duties; the result is the extension of anti-dumping duties to third countries without separate investigations of dumping and injury. GSP benefits are in many cases also affected by rules of origin. In the United States, new non-preferential rules of origin for textiles which entered into force on 1 July 1996 could affect textile quota utilization by developing countries.

17. On the other hand, non-reciprocal preferential trade arrangements (e.g. GSP, the Caribbean Basin Initiative (CBI), the Canadian Programs for Commonwealth Caribbean Trade Investment and Industrial Cooperation (CARIBCAN), the Lomé Convention) facilitate market access for beneficiary developing countries. Some preference-giving countries, including Canada, Norway and Switzerland, have moved ahead with extensions in the coverage of agricultural and food-industry products under their respective GSP schemes. Under the GSP scheme of Japan, GSP rates on various agricultural and fishery products have been reduced to maintain the preferential margin following the MFN tariff cuts of the Uruguay Round MFN tariff reductions. Some schemes, including those of Switzerland and the European Union, have added donor country content provisions to their rules of origin.

18. Moreover, a number of initiatives have been undertaken by some developed countries to strengthen GSP benefits in favour of LDCs. For example, the United States has recently designated an additional 1,783 products for duty-free treatment under the GSP programme if produced in, and imported from, LDCs. The European Union will grant the special preferential treatment enjoyed by LDCs which are members of the Lomé Convention to all other LDCs by 1 January 1998.

19. Still, in the case of some schemes, products of particular export interest to developing countries (e.g. textiles, clothing, footwear, watches, and certain electronic, steel and glass products) are either not covered or enjoy less favourable treatment than other less sensitive products. In the agricultural sector, product coverage remains far from comprehensive under many schemes. Ceilings are also applied on GSP benefits. Moreover, there is seemingly a trend towards expanding the application of product-country graduations as well as full country graduations. In addition, GSP benefits are increasingly made dependent on compliance with social, humanitarian or environmental conditions and standards which are not directly related to trade.

20. Besides the "traditional" non-reciprocal trade regimes, a new generation of preferential agreements and integration groupings which are based on the principle of full reciprocity in market opening has become a major feature of the multilateral trading system. Developing countries (and economies in transition) which are partners in preferential arrangements such as NAFTA, the proposed Free Trade Area of the Americas (FTAA), the Europe Agreements and the Euro-Mediterranean Association Agreements will gain new promising market opportunities, but will have to open their markets as well, though they may be offered longer phase-in periods for liberalizing their own trade barriers. There are risks of trade and investment diversion, or worse, of marginalization, for those developing countries outside such arrangements. Smaller developing countries may face a predicament as they may have serious problems in accepting full reciprocity due to their low levels of development, weak production bases and lack of international competitiveness.[2]

B. Supply-side constraints and policy options

21. With the conclusion of the Uruguay Round, the issue of the compatibility of policies to develop competitive supply capabilities and expand exports with multilateral rules and disciplines has assumed a new dimension. The developing countries have accepted the new multilateral rules essentially in the same manner as the developed countries, although with longer transition periods for their implementation and more favourable thresholds for undertaking certain commitments.

22. For many developing countries, in particular LDCs and other structurally weak and vulnerable economies, supply-side constraints continue to limit their capabilities to take full advantage of new trading opportunities, become more attractive locations for foreign investment and integrate themselves into regional and global production networks of transnational enterprises. Major impediments on the supply side are production and export structures that concentrate on only a few products, poor endowment with financial and human capital, weak technological capacity, inadequate legal and regulatory frameworks, and bottlenecks in physical infrastructure. Some of these can only be overcome in the long term.

23. Governments of developing countries have sought to promote industrial development and export expansion not only through macro-economic policies aimed at providing favourable framework conditions, but also through policy measures at the microeconomic level intended to reduce supply-side impediments by accelerating the dynamic process of accumulation of physical capital, skills and technology. Where developing countries have been watchful of the cost of incentives and applied them within an outward-oriented approach, microeconomic measures addressing specific supply constraints have helped build supply capabilities which the private sector could not have accomplished as rapidly by itself.

24. The new multilateral framework conditions force developing countries to rethink their development strategies and industrial and export policies. The developing countries will be obliged to shift to a much greater extent to more general and broad-based policies which remain in conformity with the Uruguay Round Agreements. Thus, the strengthening of supply capabilities will have to be achieved much more through economy-wide approaches towards promoting savings and investment, research and technological development, a high level of educational attainment and professional training, the commercial banking sector, small- and medium-scale enterprises, regional development and the building of a modern physical infrastructure. Trade policy reforms and trade liberalization have to be further pursued to help improve resource allocation and competitiveness, although they would need to be linked more effectively to policies which help reduce the social cost of the reform process and provide a safety net to vulnerable groups. By contrast, many targeted policy measures will cease to be available to policy-makers. Measures such as investment and export subsidies for specific industries or enterprises, domestic content rules and export balancing provisions will have to be phased out, and the setting of conditions for fostering the transfer and application of patented technologies will become much more stringent.

25. The development implications of the new circumscriptions are likely to vary depending on a country's stage of development. The shift towards more broad-based policies can be expected to be a manageable task for industrially more advanced developing countries. The latter will in any case need to phase in such policy reorientation and in some cases have done so already. The increasing complexity of their economies, production structures and technology requirements will oblige Governments to confine their role more and more to putting in place favourable framework conditions and cross-sectoral strategies. On the other hand, such a policy shift may prove to be much more difficult for relatively less advanced developing countries which, after all, still account for the large majority of developing economies. Their comparatively lower level of development may require more targeted government policies to overcome supply-side

constraints, promote new industries and strengthen export capabilities.

26. The Uruguay Round Agreements could be seen as "offsetting" to some extent increases in trade policy disciplines by opening up new market opportunities and strengthening the dispute settlement mechanism, thereby enhancing the possibilities of developing countries to defend their trading interests. Moreover, the general flexibility provided in the Uruguay Round Agreements leaves some scope for more targeted policies such as certain "non-actionable" subsidies and "Green Box" agricultural policies.

Chapter III

TRADE IN SERVICES

27. World exports of services[1] amounted to $1,200 billion in 1996, about one-fifth of total trade. They have grown dynamically, at a rate of nearly 12 per cent per annum during the period 1985-1995. The developing countries have a share of 23 per cent in world services exports. While as a group they have remained net importers, their travel balance has shown a surplus owing to the development of tourism. Workers' remittances have also contributed to reducing their deficit in services trade.

28. The most important markets for services are the major developed countries, in particular the United States, Germany, Japan, France and Italy. The developed countries as a group are net importers of tourism and transport services. Developing Asia has been the most dynamic market for services among the developing regions. Market access conditions for services are changing in many regions as a result of the expansion of free trade agreements and economic integration groupings allowing for a freer movement of services and services providers.

29. UNCTAD IX adopted the approach of holding expert meetings to benefit from a higher level of technical expertise. An examination of the health services sector by an Expert Meeting held in June 1997 in Geneva indicated a number of challenges and opportunities for developing economies in increasing their supply capacities and expanding their trade in this sector.[2] Some of these challenges and opportunities might be characteristic of other services sectors as well.

A. Market access issues

30. Attempts to assess the market access conditions for services based on an analysis of GATS commitments in terms of sectors covered and qualifications made are likely to provide only limited guidance to developing-country policy-makers. Assessments based on interviews with the private sector might provide more profound insights, but services enterprises in developing countries do not usually have the direct experience in foreign countries necessary to evaluate the impact of trade barriers and identify new market opportunities. To assist developing countries in this respect, UNCTAD was requested to establish a data base on laws and regulations affecting trade in services (MAST) (see annex).

31. Constraints on the temporary movement of persons across borders have proven to be important barriers to trade in many services sectors. A case in point is the health services sector where the movement of persons, both as suppliers and consumers, is of particular importance as a mode of supply due in large part to the labour-intensive nature of these services.

32. The globalization of production has prompted a global search for expertise and created pressures for the liberalization of regulations which restrict the temporary movement of skilled persons, both within the international operational network of TNCs and for specific projects of limited duration. So far attempts to facilitate the movement of persons have concentrated on limited groups of services providers, such as business visitors, intra-corporate transferees and specialty personnel. There has been little action to reduce the scope of economic needs tests. Developing countries have expressed disappointment over the results

of the post-Uruguay Round negotiations on the movement of natural persons, as very few countries have made sectoral or occupation-specific commitments.

33. Still, some of the new commitments on the movement of natural persons are sector-specific, enabling developing countries to identify export opportunities more accurately and giving such new opportunities more security and stability. Examples of such commitments include that of the European Community and its Member States with regard to market access and national treatment for professionals engaged in the supply of specific service activities on a temporary basis as employees of a foreign juridical person having obtained a service contract for a period not exceeding three months. The service activities in the EC Schedule of Commitments include engineering services; integrated engineering services; computer and related services; technical testing and analysis services; construction services, site investigation work; architectural services, urban planning and landscape architectural services; management and consulting services; advertising; research and development services; accounting services and entertainment services. A commitment by Switzerland includes market access for professionals engaged in engineering services, consultancy services related to installation of computer hardware, and software implementation services.

34. Some action could be undertaken multilaterally to facilitate the movement of persons belonging to groups of occupations which are covered by GATS commitments. Thus, visa regimes could be streamlined and made more effective. This would involve: the simplification of administrative procedures, including the reduction of time taken for issuing a visa; issuing multiple-entry visas on a wider basis; extending the length of the visa validity and the permitted period of stay; adoption of transparent criteria for issuing visas; and streamlining border processing. Moreover, a number of actions could be considered to achieve maximum use of horizontal commitments and obtain improvements in future negotiations with respect to the movement of persons. For the three categories of services providers under horizontal commitments, i.e. business visitors, intra-corporate transferees and professionals on a service contract, a general business visa could be issued to the employer or business contact based on the country's horizontal GATS commitments. Another option would be a sector- or occupation-specific visa issued to an individual. Such a visa would identify a holder as a beneficiary of the provisions in the GATS schedules of sectoral commitments. Thus, the creation of specific service-trade-related and internationally recognized visas could provide a longer-term solution to facilitate and enhance international trade in services through the movement of natural persons.

35. Wherever possible, full advantage should be taken of possibilities offered by new technologies. The introduction on a multilateral basis of a universal electronic card as a means of visa-free travel for selected categories of professional or business people would limit the abuse of visa regimes and facilitate trade-related movements of persons.

36. Furthermore, new technologies increasingly offer more effective ways of obtaining information on business opportunities and help lower associated costs in terms of money and time. The development of new markets for services was stimulated in particular by the synergy between the telecommunication and traditional services sectors. However, not every services sector was affected by new communication technology to the same extent. Among those that benefited most were: tourism services, with new hotel and travel reservation systems, including the provision of various tourism-related information; financial services, in particular banking services; distribution services, with retailing services as the main beneficaries; educational services, including the development of distance learning; health services, where the development of telemedicine is the most striking example; trade logistics in general; and business services, including professional services, with a new spectrum of opportunities provided for advertising services. A number of developing countries have been exporting services, particularly "off-shore office services", through telecommunications networks.

B. Electronic trade

37. The advent of the Internet provides new opportunities for the expansion of trade in both goods and services. The value of electronic trade can be expected to increase significantly over the years to come. Smaller businessess may have the most to gain from electronic trade, as it gives them easy and rapid access to a wide range of potential customers far beyond what was previously possible. Provision of adequate access to the information infrastructure will be of particular importance for many developing countries. UNCTAD is contributing to facilitating the efforts of developing countries in this respect through the establishment of its Global Trade Point Network (GTPNet), which includes the Electronic Trading Opportunities (ETOs) system.

38. Proposals have been made by some Governments for the creation of a "global free trade zone" on Internet. Governments are also attempting to adapt legal and regulatory frameworks to address and deal with issues arising from such trade. Major issues pertain to taxation and tax evasion, patent and copyright protection, data protection, the use of encryptic technology to ensure transaction security and right of privacy, consumer protection, and the development of logistics for payment and the delivery of goods and services. The issue of multilateral rules for electronic trade has also been raised.

39. Specific to trade in services is the phenomenon that new technologies seem to complement, or replace, other modes of supply of services, increasing the relative importance of cross-border trade. Thus, telemedicine is providing the means of supplying health services through the "cross-border mode". Even the limited application of telemedicine to date has increased awareness of its potential benefits in terms of cost savings for service providers and consumers and increased accessibility of health services, including specialized care. However, the analysis of trade in health services through telemedicine by the Expert Meeting referred to above has made it evident that a range of issues need to be resolved before telemedicine can be provided on a broader basis. They include issues of standards and compatibility, technical requirements, health insurance coverage, recognition of qualifications and validity of licenses, as well as ethical issues concerning the patient's privacy and confidentiality of information and legal liability issues.

40. Developing countries, like other countries, have to seize the opportunities which electronic commerce offers. The potential favourable impact on trade expansion and diversification, the importance of constraints on the market access and supply sides, and the potential risks associated with such commerce would be major areas for analysis.

C. Supply-side constraints and policies

41. Governments can play an effective role in stimulating market competition and new business strategies, promoting exports in their services industries and assisting services producer associations in disseminating information nationally about world markets, standards and other countries' experiences. Important tasks are the implementation of judicious liberalization strategies, the removal of constraints that put services suppliers at a disadvantage vis-à-vis potential competitors, and the revision of laws and regulations in line with the necessities of export promotion. Tax policies may need to be reformed to promote those services industries that exhibit export potential and could contribute most to overall socio-economic growth in the long run. Attracting foreign partners through joint enterprises or cross-licensing could be a way of learning from "best practices".

42. A key issue concerns the strategic approach towards the liberalization of services sectors so as to maximize the impact of liberalization on supply capacity, export expansion and economic development. The Expert Meeting on health services referred to above noted that opening up domestic markets to foreign commercial presence in this sector could have the salutary effect of reducing costs and lightening the burden on the public sector, provided an appropriate

regulatory framework was developed. If not, market access liberalization might exacerbate the duality of the health system, further depriving poorer people of access to adequate medical care. The ultimate impact also depended on various other parameters in the domestic economy, such as the degree of endowment with medical practitioners. The differing impact of liberalization depending upon specific national characteristics, capacities and regulatory structures would seem to be a feature of other services sectors as well. As regards financial services, there has been some concern about potential adverse implications for financial stability as a result of a liberalization of this sector. Its liberalization calls for the concomitant build-up of prudential regulatory and supervisory infrastructures and institutions, as well as the implementation of appropriate macroeconomic policies to ensure stability and efficiency.

43. The inability to take greater advantage of new market opportunities in services sectors where developing countries may have a comparative advantage sometimes reflects difficulties of Governments in reconciling trade and social objectives. For instance, in the view of the Expert Meeting on health services, the increasing cost-consciousness of public health systems and the growing role of the private sector in many countries provides new opportunities for trade. On the other hand, Governments have shown concern that trade in health services might eventually erode the coverage and quality of health care for their own people. One can detect similar concerns in other sectors, such as the perceived conflict between trade and cultural identity, notably in the audiovisual sector.

44. Particular importance needs to be attached to the achievement and maintenance of quality and safety in services. Moreover, in many services sectors of developing countries, there is also a need to improve reputations and perceptions of quality and security, which are especially relevant to the movement of consumers. As a service cannot be experienced and tested before it is consumed, the reputation of the supplier has a relatively greater significance than in the case of goods. The dissemination in foreign markets of information on the quality and variety of services provided in the country would help create a positive image of the services exporters abroad. In the health services sector, the perception of insecurity is, in fact, the main barrier to the movement of consumers.

D. Statistical constraints

45. There is consensus among trade negotiators and the academic community on the inadequacy and deficiencies of the current statistical framework for trade in services. The main problem as it stands now relates to the definition of trade in services. The definition as embodied in the GATS and the classifications of services used by negotiators (i.e. the sectoral classification of GATS and the Central Product Classification) do not tally with current statistical practices in respect of trade in services. Significant improvements of statistics on trade in services are a crucial factor in increasing the capacity of countries to assess their export performances, evaluate the benefits of liberalization and identify new market opportunities. Thus, appropriate concepts, definitions and classifications are needed as prerequisites for comparable statistics on trade in services disaggregated by sector, origin, destination and mode of supply.

Chapter IV

SCOPE FOR FUTURE INITIATIVE

46. The analysis in chapters I and II has highlighted once again that the expansion and diversification of exports from developing countries continues to be hampered by both market access barriers and supply-side constraints. Improving their export performances requires remedial action on both fronts.

A. Improving market access

47. The agenda "built-in" to the multilateral trade agreements provides a number of opportunities to enhance the export opportunities of developing

countries through negotiated improvements in market access conditions. On this agenda figures, first of all, the firm commitment to continue the reform process in agriculture by the year 2000. The second firm commitment provides for the holding of a multilateral round on trade in services, to begin no later than 1 January 2000 within the framework of GATS, aimed at achieving a progressively higher level of liberalization.

48. Apart from these specific commitments to negotiate, the built-in agenda provides for reviews and other actions which again could give developing countries the possibility to press for action that would enhance their export opportunities. Thus, there is provision for a revision of the Agreement on Technical Barriers to Trade after three years of application, i.e. before the end of 1997, with a view to recommending an adjustment of rights and obligations where necessary to ensure mutual economic advantage and balance of rights and obligations. In that context, developing countries have pointed to difficulties arising from the lack of definition of an international standardizing body and the multiplicity of procedures for certification.

49. In the area of services, in addition to the scheduled round of negotiations, the GATS Working Party on Professional Services was instructed by Ministers at Singapore to continue to develop multilateral disciplines and guidelines. Furthermore, the Annex on Air Transport Services provides for a review before the end of 1999 with a view to considering the possible further application of the GATS to this sector.

50. In addition, there is a series of annual reviews of the operation of many of the multilateral trade agreements, e.g. the Anti Dumping Agreement, which provide an opportunity to address access problems which have arisen in the implementation of these agreements. Moreover, the Uruguay Round Decision on Anti-Circumvention recognized the desirability of uniform rules on anti-dumping circumvention measures, and a number of pertinent issues, including the question of what precisely constitutes circumvention, are under consideration in the Committee on Anti-Dumping Practices.

51. Substantial reductions of peak tariffs and tariff escalation in sectors of export interest to developing countries, as identified in chapters I and II, would go a long way in expanding exports from many of these economies in line with their comparative advantage in international trade. Achieving greater transparency in the administration of tariff quotas and more significant expansions of these quotas would further support exports. In the textiles and clothing sectors, efforts may aim to speed up the reintegration of sensitive products which are still subject to quotas into the GATT, besides reducing peak tariffs. The application of contingency measures and other non-tariff measures in strict compliance with the objectives which they are meant to achieve would also promote trade guided by the competitive strength of countries.

52. Besides market access improvements negotiated under the WTO "built-in" agenda, preference giving developed countries may consider initiatives to improve preferential non-reciprocal trade regimes such as the GSP, the CBI, CARIBCAN or the Lomé Convention. Product coverage may under some schemes be extended to capture a greater number of "sensitive" products. Efforts may also be made to reverse the trend of linking non-reciprocal trade preferences to conditions and circumstances which are unrelated to trade. Overly restrictive rules of origins may be relaxed and origin cumulation permitted on a larger scale.

53. Furthermore, the trend towards reciprocity in the new generation of preferential trade arrangements and economic integration groupings may have longer-term implications for the scope and application of the traditional non-reciprocal trade regimes like the GSP or the Lomé Convention. The trend may imply that non-reciprocal trade preferences will increasingly be focused on LDCs and other structurally weak and vulnerable economies, while more and more developing countries will cease to be beneficiaries as and when the economic disparity between them and the developed countries narrows. Such graduation needs to be guided by economic reality and objective criteria to avoid premature withdrawals

of trade benefits. On the other hand, greater focus of non-reciprocal trade preferences on LDCs and other structurally weak and vulnerable economies may aim to further strengthen such preferences in the spirit of the Marrakesh Ministerial Decision on Measures in Favour of LDCs and the Singapore Ministerial Declaration.

B. Initiatives on the supply side

54. In the years to come, the negotiation of reductions of access barriers in foreign markets will, on the part of developing countries, increasingly require concessions providing freer access to their own markets. As experience indicates, gradual liberalization, judiciously applied, has a healthy impact on competitiveness and resource allocation. Rapid across-the-board liberalization, on the other hand, can lead to an irreversible loss of capital and the disappearance of accumulated skills. It may even hold back the development of new, more complex activities. The developing countries face the difficult challenge of conducting liberalization strategies which promote economic efficiency while containing, where necessary, potential adverse social implications through appropriate social policies.

55. Moreover, prospects of increased competition for particular production sectors will oblige developing countries to strengthen their policies in support of supply capability building. The task which is crucial in this context will be the identification of options for supply-side policies that take due account of new constraints on policy formulation within the multilateral framework conditions of the Uruguay Round Agreements.

C. Preparing for negotiations

56. In preparing for trade negotiations, advanced industrialized countries mobilize considerable resources to identify negotiating objectives, to analyze the positions of their trading partners and to form national consensus. This process draws heavily on the experience of the private sector and is tailored to the needs of industry. In addition, studies are undertaken by Governments, or subcontracted to specialized research institutions, to examine the strategic aspects of new issues for negotiation or new approaches to negotiation. The findings are often examined in study groups to test ideas. Furthermore, the OECD provides a forum for the refinement and coordination of developed country positions, supported by studies by the OECD secretariat.

57. Developing countries again find themselves at a considerable disadvantage. Most of their Governments lack sufficient resources for the collection of comprehensive information and the conduct of in-depth examinations of issues and strategic approaches. In the same vein, the capability of the private sector to provide precise information as well as analytical inputs is limited in developing countries. As most enterprises are not extensively involved in global operations, the private sector frequently lacks well informed perceptions of both market access conditions and its own relative competitive strength in international trade. This is particularly true in the area of services.

58. Developing countries have to examine a broad range of complex issues in preparing for trade negotiations in both the short and the longer term. For instance, they need to: (i) identify barriers to their trade in goods and services in sectors of particular export interest to them (including cases where restrictions in one sector inhibit market opportunities in some other sector[5]); (ii) determine targets and negotiating approaches for the liberalization of the barriers identified, including peak tariffs; and (iii) elaborate concrete proposals to rein in the protectionist use of contingency measures and other non-tariff measures such as technical barriers, sanitary and phytosanitary regulations, rules of origin or environmental prescriptions. For preferential rules of origin, this objective might be pursued through the development of a set of multilaterally applicable criteria and principles.

59. Furthermore, the examination of a number of supply-side aspects will help strengthen negotiating positions and "back-up" policies at home. To this end,

developing countries may need to: (i) evaluate the extent of liberalization they themselves want to offer in the negotiating process (in the sector where they seek better market access or in some other sectors); (ii) assess the economic impact of liberalizing particular sectors on efficiency and competitiveness; and (iii) design supply-side policies which are appropriately tailored to different supply constraints and developmental levels in conformity with multilateral rules.

60. More specifically, in the financial services sector, multilateral liberalization may, on the part of developing countries, call for a careful analysis of the pace and sequencing of reductions of access barriers to their domestic markets in line with individual development needs. Binding commitments with regard to cross-border trade and commercial presence may need to follow measures to strengthen domestic services sectors and establish appropriate regulatory frameworks. In the area of government procurement, developing countries face, in particular, the tasks of identifying barriers to trade in major markets in sectors of export interest, developing approaches for their liberalization and proposing ways to enhance transparency without creating undue administrative burdens for themselves.

61. In addition, an analysis of the impact of new technologies on both market opportunities and the competitiveness of supply capabilities in services sectors might help assess the scope for improving export performances in these sectors. The findings might provide further guidance for liberalization approaches and supply-side policies.

62. Some of the issues set out above might be suitable areas for expert analysis. The Commission might wish to consider the convening of expert meetings in 1998 with appropriate private sector participation.

Endnotes

1. See the disputes involving United States safeguard actions on imports of cotton and man-made fibres from Costa Rica (WTO documents WT/DS24/R of 8 November 1996 and WT/DS24/AB/R of 10, February 1997) and woven wool shirts and blouses from India (WTO documents WT/DS33/R of 6 January 1997 and WT/DS33/AB/R of 25 April 1997).

2. It was in response to this predicament that in 1997 the US administration proposed to provide on a non-reciprocal basis "NAFTA parity" to Caribbean countries hurt by the loss of trade because of NAFTA.

3. Defined as commercial services, i.e. total services minus government services n.i.e.. Source: IMF, Balance of Payments Statistics Yearbook, 1996, Part 2, and WTO data tapes.

4. Report of the Expert Meeting on Strengthening the Capacity and Expanding Exports of Developing Countries in the Services Sector: Health Services (TD/B/COM.1/7-TD/B/COM.1/EM.1/3).

5. An APEC Business Travel Card was introduced on a trial basis between three APEC members in 1997.

6. See also "Telecommunications, business facilitation and trade efficiency: some major implications of the Global Information Infrastructure (GII) for trade and development", issue paper prepared by the UNCTAD secretariat, TD/B/COM.3/EM.3/2.

7. See the statement of President Clinton on 1 July 1997 on a US Government plan for promoting electronic trade; and the Declaration of the European Ministerial Conference on Global Information Networks, Bonn, 6-8 July 1997.

8. For instance, restrictions in the health insurance sector in the form of geographical limitations inhibit the movement of consumers of health services across borders and thus frustrate trade in the health sector.

Annex

UNCTAD's ELECTRONIC TOOLS FOR TRADE ANALYSIS AND NEGOTIATIONS

A. Trade Analysis and Information System (TRAINS)

1. TRAINS, and its corresponding dissemination tool, the TRAINS CD-ROM, is the most extensive database on trade information ever developed. It can be compared to a specialized library with books on trade-related topics (i.e. tariff schedules; para-tariff measures; non-tariff measures; import statistics).[a] The global aim of TRAINS is to increase transparency in international trading conditions. More specifically, it is intended for use by policy-makers and economic operators engaged in exporting. It is also a powerful tool for trade negotiations and general research on international trade. TRAINS enables the user to carry out searching and sorting of data, as well as to do comparative data analysis. The software allows for a cross-country comparison of basic indicators on the import regime, such as tariff averages and the incidences of non-tariff measures. Likewise, it allows the same cross-country comparison to be made for the corresponding import values, in principle from 1990 to the most recent year available. Five basic operations can be distinguished: (i) selection of products; (ii) selection of markets; (iii) analysis of information on import regimes at the basic HS level (over the selected markets for one selected product; over the selected markets for any aggregate of products; over the selected products for one chosen market); (iv) analysis of imports by origin (over many markets for one chosen product; for all products from a selected supplier; to show potential trade between two countries selected as supplier and as market respectively; through a network of trade flows); and (v) displaying information at the national tariff line level (for product descriptions; on tariff and para-tariff measures; on non-tariff measures). For dissemination purposes, the secretariat has invited the member States to designate TRAINS Focal Points. The further development of the TRAINS software is being carried out in collaboration with international and regional organizations and regional integration groupings (including the World Bank). The database is being extended with information on bilateral preferential tariffs and rules of origin for the most important trade agreements in the western hemisphere. Through collaboration with the OECD, the quality of the information on OECD countries in the database has been improved.[b]

B. Database on Measures Affecting Service Trade (MAST)

2. The UNCTAD secretariat was requested to develop a computerized database for compiling and disseminating information on measures, including laws and regulations, that affect the access of services and service suppliers, especially from developing countries, to world markets. Major work on MAST at present is being carried out in the context of regional cooperation and integration efforts. Future work will be focused almost exclusively on national sources. The focus of the UNCTAD database is on making information accessible to a variety of users, especially from developing countries: Governments, regional organizations, academics and service exporters. MAST may contribute to increased transparency in the trade regime for services. The information could be used by individual countries as a tool to facilitate the negotiating process at the bilateral, regional or multilateral level. For developing countries which are formulating new regulatory regimes in their services sectors, MAST can be a source of information on how other countries have regulated similar sectors. MAST can also be a useful tool for collecting information in the context of accession of new countries to the WTO and for contracting parties who wish to make further commitments in the service sector.

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[a] UNCTAD developed TRAINS following Board decision 354(XXXIV).

[b] See OECD, Indicators of Tariff and Non-Tariff Trade Barriers, Paris, 1996, and its corresponding CD-ROM, produced jointly by OECD and UNCTAD.

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THE POST-URUGUAY ROUND TARIFF ENVIRONMENT FOR DEVELOPING COUNTRY EXPORTS

UNCTAD/WTO Joint Study

CONTENTS

		Page
I.	Introduction	2
II.	Tariff peaks	3
III.	Tariff escalation	9
IV.	Overview	11

ANNEX

Tables (1-10) 14-24

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INTRODUCTION

1. This study has been prepared by the secretariats of UNCTAD and the World Trade Organization (WTO) in the framework of their mutual cooperation programme. Its objective is to review the tariff situation in major developed and developing countries once all the tariff changes and quota-phase outs agreed in the Uruguay Round are fully implemented. The study analyses the tariff situation for developing country exports and focuses on two major aspects: (a) tariff peaks; and (b) tariff escalation. For this purpose it takes account of the concessions granted by preference-giving countries under their respective generalized system of preferences (GSP) schemes.

2. The study aims at improving the understanding of the dimension of the post-Uruguay Round tariff problem and at identifying the main sectors where exports of developing countries have high tariffs in their major markets. The study further illustrates, by the example of some major export products of developing countries, the patterns of tariff escalation that will be encountered in the post-Uruguay Round situation. The results of this study are intended to contribute to preparations by developing and other countries for trade negotiations.

3. To this effect, substantial work has been initiated to improve and update UNCTAD and WTO data bases on tariffs and trade to the post-Uruguay Round situation. This study uses the results of this work to date to project as realistically as possible the post-Uruguay Round tariff situation for exports to eight selected major markets: in the developed countries, Canada, the European Union (EU), Japan and the United States, and in the developing countries, Brazil, China, the Republic of Korea and Malaysia. These countries are major export destinations for developing countries and include some of the most dynamic developing country markets. Peak tariffs were defined as rates above 12 per cent ad valorem, which may still provide substantial effective rates of protection to domestic producers of up to 50 per cent. The tariff data now integrate the current tariff situation in these countries in 1996/1997 with respect to most-favoured nation (MFN) and GSP rates, and, to the extent possible, suspended MFN rates, as well as the agreed rates resulting from the Uruguay Round negotiations. It also takes account of the ratified commitments for alignment to the MERCOSUR Common External Tariff by the year 2000. An attempt has also been made to translate the relevant Uruguay Round concessions into the Harmonized System tariff nomenclature of 1996.

4. A problem in carrying out a study of peak tariffs is that a substantial proportion of peak tariffs are specific rates or combined rates. This is the case for almost all products where post-Uruguay Round MFN rates (outside tariff quotas) exceed 30 per cent ad valorem. Due to the lack of the tariffs' transparency, ad valorem equivalents were estimated. They are based generally on import unit values if recent values were available from or for the countries concerned; in the other cases, Trade Information System data (TRAINS) at the level of individual tariff lines or six digit Harmonized System (HS) trade statistics from the UN COMTRADE data base have been used. In a few cases, specific rates were compared with world market prices or, if data were lacking, with the trade data of the major world market importers of the product. Furthermore, ad valorem equivalents for specific rates vary with changing world market prices. These equivalents also are only averages for an importing country for a specific year, whereas exporters have different ad valorem

equivalents that vary with the price of each transaction: these equivalents will be higher, the lower the export price. Post-Uruguay Round tariff data in the new HS 1996 nomenclature are available for the European Union; cooperation by the United States' authorities with respect to preliminary estimates of 1997 MFN tariff rates and 1996 import unit values facilitated substantially the estimation process.

5. Improvement of tariff transparency, particularly in the sectors of peak tariffs, and their comparability with trade data depends crucially on cooperation by the countries concerned. A methodology based on original country data for estimating ad valorem equivalents for specific tariff rates for negotiating and analytical purposes is superior to any other methodology. Nonetheless, comparisons with world market prices or other international prices are useful, where peak tariffs have reduced a country's imports to minimal levels or have allowed only imports of highest quality and highest priced products which can support such tariff rates and the resulting consumer prices for luxury products.

6. In conclusion, it seems necessary to substantially improve transparency of tariffs with regard to specific rates. In the first instance, ongoing work by WTO member countries regarding translation of post-Uruguay Round concessions into the new 1996 HS nomenclature should be concluded as rapidly as possible. It is also desirable for countries to provide information on ad valorem equivalents of specific rates currently applied and resulting from the Uruguay Round in order to increase transparency. For future trade negotiations, the option of converting all specific and combined rates into ad valorem rates should be further explored. The clear expression of specific duties in ad valorem terms would substantially facilitate the evaluation of their incidence on prices and trade in the countries concerned and by their trading partners.

II. TARIFF PEAKS

7. As a result of the Uruguay Round and national tariff reforms, average tariff levels of many countries have now been reduced to relatively low levels. This has led to a widespread belief that tariffs are no longer a major problem for international trade, nor for the trade of developing countries.

8. However, this study shows that problems of high tariffs are still widespread. Even after the full implementation of all Uruguay Round concessions a substantial number of high tariffs will remain which provide for high levels of protection and affect international trade, including exports from developing countries.

Frequency

9. Both frequency and tariff levels are a matter of concern. About 10 per cent of the tariff universe of the Quad countries will continue to exceed the level of 12 per cent ad valorem after full implementation of the Round. This rate refers to the effectively applied tariffs for imports from developing countries. All presently applied tariff suspensions, as well as general GSP concessions as applied in favour of developing countries in 1996/97, were subtracted. The Quad countries maintain an extremely large variation of tariff rates. Their tariff peaks reach, in extreme cases though for important products, 350 per cent and more. The majority of their peak tariff ranges

from 12 to 30 per cent. But one fifth of the peak tariffs of the United States, one quarter of those of the European Union, about 30 per cent of Japan and about one seventh of those of Canada exceed 30 per cent (see tables 1 to 4).

10. Developing countries apply rates above 12 per cent ad valorem more frequently than the Quad countries but have fewer extremely high rates. In the four examples selected for this study, the proportion of peak tariffs ranges from 8 per cent in the Republic of Korea to 30 per cent in Malaysia, 60 per cent in Brazil and 70 per cent in China. However, at the end of the implementation period no MFN tariffs will exceed 100 per cent in the Republic of Korea, and no rates will be above 20 per cent in Brazil, once the MERCOSUR Common External Tariff has been fully implemented. Malaysia's tariff will be 30 per cent or more for about one third of all peaks. This is still the case for half of the peak tariffs in China which is, however, engaged in negotiations for WTO membership and a progressive liberalization programme for its tariff and non-tariff measures. In this context, import tariffs will be reduced from an average of 23 per cent to 17 per cent on 1 October 1997 (see tables 5-8).

11. Peak tariffs affect both agricultural and industrial products significantly. Agricultural peaks are important in all developed countries, the Republic of Korea and China. Their proportion is relatively low in Brazil and Malaysia. Industrial peaks are most frequent in the United States and Canada, and more generally in the developing countries. About one fifth of Japan's peaks are in the industrial field. They play a small role in the European Union where GSP avoids rates exceeding 12 per cent for most industrial exports from developing countries, as well as in the Republic of Korea.

Main sectors

12. The problem of peak tariffs occurs in six sectors: (a) major agricultural staple food products; (b) fruit, vegetables, fish, etc.; (c) the food industry; (d) textiles and clothing; (e) footwear, leather and travel goods; (f) the automotive sector and a few other transport and high technology goods such as consumer electronics and watches.

(a) Major agricultural food and commodities

13. The most important areas with the highest frequencies and the highest rates are the major agricultural staple foods, in particular meat, sugar, milk, butter and cheese, and cereal, as well as tobacco products and cotton. Tariffication of former quantitative restrictions, levies and similar non-tariff protection measures resulted in extremely high rates exceeding in most cases 30 per cent and reaching up to 30 per cent and more for MFN trade above tariff quotas (see table 9).

14. The tariff quotas for such products are intended to safeguard traditional trade flows and create new minimum access opportunities for the trade of all WTO members. While several of these tariff quotas do create new trading opportunities, a number lack dynamism or are limited in their use. Frequently, the volume of the tariff quotas does not increase during the implementation period. Quotas are often allocated mainly to traditional partners or are accessible under preferential arrangements. This risks pre-empting trading opportunities and leaves little room for imports from newcomers. Products

benefiting from tariff quotas are often narrowly defined, exclude standard trade qualities, or are provided for industrial use. There are important cases where tariff quotas carry peak rates or even rates exceeding 30 per cent.

15. High MFN rates for these staple food products are often combined with country-specific special measures. In application of the agricultural safeguard clause, the US tariff specifies additional duties so that imports above the tariff quotas are subject to progressively higher tariff rates the lower the actual export price. Japan has a system with similar effects, as tariffs for certain meat products, for example, are defined as the difference between the import price and a certain standard price or a multiple thereof. In Japan and the Republic of Korea, there are quantitative restrictions on rice. Furthermore, for rice and other cereal products, Japan, under the same safeguard provisions, has a system of import mark-ups for government-related imports, which can reach up to 550 per cent for rice: these mark-ups may be tariffied in the future. The special agricultural safeguard provisions will remain in force for the duration of the reform process. This may exceed the duration of the implementation period and will be determined in the course of the forthcoming negotiations scheduled under the WTO Agreement on Agriculture.

(b) Fruit, vegetables, fish, etc.

16. In these areas, MFN peaks are generally lower than in the above-mentioned major food sectors, but nonetheless are very common; with some exceptions, there is a single rate without tariff quotas that reduces their impact. In most cases, peak duties for major fruits, vegetables and some fish and crustaceans range from 12 to 30 per cent. This is frequently the case for oranges and other citrus fruit, pineapples, apples, some stone fruit, grapes and tomatoes in the high season, as well as for tuna and sardines (for consumption). In individual markets, high rates are also applied to a variety of other fresh or dried vegetables, such as asparagus, olives, mushrooms, garlic, etc. However, in some markets import duties for many fruits, vegetables and fish are substantially lower.

17. Special national features include the very high peak tariffs for above-quota imports of bananas into the EU (180 per cent); of dried beans, peas and lentils into Japan (460 - 640 per cent); and of groundnuts (in shell) into the US (164 per cent). Furthermore, seasonal tariffs are common. The EU applies additional tariffs, which are progressively higher at lower import prices, for oranges and other citrus fruit, grapes, apples, etc., as well as for tomatoes, olives, cucumbers and other vegetables. The EU's tariff quotas for fish for industrial processing are subject to reference prices.

(c) Food industry

18. The food industry is a major area where tariff protection will remain frequent and high in the major developed country markets, even after implementation of the Uruguay Round concessions. Tariff peaks and a range of additional measures extend far beyond the immediate first processing stages to the industry as a whole and its large variety of products. Peaks are also relatively frequent in the food industry of China and the Republic of Korea.

19. The EU's food industry (beyond the stages of immediate processing industries) accounts for about 30 per cent of all tariff peaks, ranging with some exceptions from 12 to 100 per cent. There are several cases of additional duties to compensate processing industries for higher prices of agricultural

inputs. Examples of products subject to particularly high rates include cereal and sugar-based products, fruit preparations, canned fruit juices, etc. The food industry accounts for one sixth of all tariff peaks in the US and these also fall mainly into the 12 to 100 per cent range. The US applies a widespread system of combined MFN and tariff quota rates in this area, together with safeguards consisting of additional duties which rise progressively, if import prices are below a certain threshold. Examples of products subject to US tariff peaks include orange juice (31 per cent), peanut butter (132 per cent), as well as certain tobacco products (350 per cent). In Japan, the food industry accounts for 40 per cent of all tariff peaks throughout the various branches. Major product examples include margarine, canned meat and meat preparations, chewing gum and other sugar confectionery, cocoa powder and chocolate, pasta and other cereal products, preserved fruit and vegetables, fruit juices, coffee and tea syrups and extracts, cigarettes, smoking tobacco, etc.

20. In the four developing countries, the food industry accounts for 4 to 8 per cent of all tariff peaks in Brazil, Malaysia and China, and 30 per cent in the Republic of Korea. Major sectors affected are canned fruit and vegetables, beverages and tobacco.

(d) Textiles and clothing

21. In the US, the EU and Canada, large proportions of clothing and textile imports are subject to high tariffs. Most tariff peaks are in the 12 - 30 per cent range, with some exceptions such as certain woollen and synthetic clothing that are subject to rates of 32 per cent in the US (see table 10). These high tariffs are, for now, combined with quantitative import restrictions. On the other hand, there are a number of textile products of major importance for developing country exports whose MFN or GSP rates are being substantially reduced or set to zero (such as tariffs on printed cotton fabrics in the US). In the US, MFN rates apply for most products, even for developing countries, as most of them are not covered by the GSP. EU's GSP benefits for clothing and textile products are generally limited to a 15 per cent margin of the MFN rates and subject to several country-sector limitations. On the other hand, Japan has very few and relatively low peak tariffs in these two sectors and does not apply quantitative restrictions to developing countries' exports (except a few voluntary export restraint (VER) agreements with such countries as China and the Republic of Korea). In some of the developing countries, clothing and textiles are still largely protected by relatively high tariffs and in China by import licencing. The Republic of Korea is a notable exception, and in Brazil protection is limited to tariffs which will be reduced to 20 per cent by the year 2000.

(e) Footwear, leather and travel goods

22. Footwear of various types is still protected by high tariffs in most developed countries. Post-Uruguay Round MFN rates will reach about 160 per cent in Japan (for a pair of leather shoes valued at US$25), 37.5-58 per cent for certain rubber, plastic and textile shoes in the US, and 18 per cent in Canada. MFN duties remain relevant, as GSP benefits are limited in this sector. In the US, footwear and leather products are excluded from the coverage of the scheme, so that MFN tariffs apply fully to developing countries. Japan generally grants a reduction of half of the MFN duty within the limits of binding tariff quotas

for travel and leather goods and footwear, which are usually rapidly exhausted soon after the opening of the quotas. With the exception of the Republic of Korea, the developing countries maintain relatively high duties on footwear and leather products.

23. Furthermore, Japan applies a rate of 30 per cent on tanned and prepared leather. The GSP rate is half of the MFN rates and subject to tariff quotas.

(f) Automotive sector, transport equipment and electronics.

24. With the exception of Japan and the Republic of Korea, the countries reviewed maintain a high level of protection for one or the other branch of the transport industry. Most of the developing countries maintain high tariff protection with rates rising above 100 per cent in their automobile industry. In the developed countries, tariff protection is more selectively applied: 25 per cent for trucks in the US; 22 per cent for trucks and 16 per cent for buses in the EU; and 25 per cent for ships and boats, including fishing vessels in Canada.

25. In addition, various developed and developing countries apply high tariffs on TV receivers, video recorders, TV picture tubes and some other high technology products, such as watches.

Least developed countries

26. Due to the application of a more favourable GSP treatment, the post-Uruguay Round position of the least developed countries (LDCs) will be more favourable than that of developing countries in general. However, a substantial number of peak tariffs will continue to apply to their important export products in all major markets.

27. Most industrial exports from LDCs to the EU are duty free, as most of these countries are members of the Lomé Convention. The EU Council of Ministers recently decided to extend the preferential tariff treatment under the Lomé Convention to the other least developed countries by the year 2000. As a result, no industrial peak tariffs will remain in effect for LDC products. Japan's GSP exempts most LDC exports from virtually all industrial peak tariffs as well as tariff quota limitations. Therefore LDCs can for example export leather products and footwear duty free to Japan. In 1997, the US extended the product coverage of its GSP in favour of LDCs. As a result, many more industrial and agricultural products will now benefit from duty-free entrance and significant tariff advantages vis à vis other suppliers. However, such major sectors as textiles, clothing, footwear and leather products remain outside the scope of the GSP improvements in favour of LDCs. Consequently, LDCs continue to face many MFN peak duties for their major industrial exports. In Canada, certain peak duties will also remain in effect for imports of LDCs with regard to products not covered by its GSP. In developing country markets further improvements in market access may result from the ongoing negotiations of the Global System of Trade Preferences among Developing Countries (GSTP), as well as the implementation of the staged tariff reform programmes in major developing countries. In addition, certain LDCs can benefit from membership in subregional integration groupings or preferential arrangements, such as Cambodia, Laos and, eventually, Myanmar in the Association of South-East Asian Nations (ASEAN); Bangladesh and Laos in the Bangkok Agreement; and Bangladesh,

Burma, Nepal and the Maldives under the South Asian Preferential Trade Agreement (SAPTA), as well as in the various subregional and regional African integration groupings.

28. The situation is different in the agricultural sector as quite a number of peak tariffs remain applicable to LDCs in all major markets. The 1997 GSP scheme of the US provides duty-free access for most agricultural exports from LDCs, including imports within tariff quotas. Consequently, LDCs can now obtain important tariff preferences for a number of products. On the other hand, the peak tariffs on exports above the tariff quotas remain applicable to LDCs. Japan grants duty-free treatment to LDCs for a substantial range of agricultural and food industry products. However, LDCs continue to face peak MFN rates for beef and other meat products, sugar and sugar products, various fruits and fruit juices, etc. The EU applies extensive preferences to agricultural imports from African Caribbean and Pacific (ACP) countries. But, high tariffs, including MFN peak rates, remain in effect for a number of major food products, in particular for imports beyond limited preferential tariff quotas or past trade levels. For example, this is the case for bovine meat, sheep and goat and other meat and meat products; major cereals, such as rice, wheat and rye; as well as for several fruit, vegetable and food industry products. Many other agricultural products and processed agricultural products obtain only a partial reduction of the MFN duties. This rebate amounts for example to 16 per cent of the rate applicable to sugar and its products, to various canned meat products, certain milk products and butter, etc. Consequently, even many preferential ACP rates remain at peak levels.

III. TARIFF ESCALATION

29. Not only the level of a tariff, but also the tariff structure may imply a distortion of international production and trading conditions and constitute additional barriers to market access. Tariff escalation occurs if tariffs rise with stages of further processing. Escalating tariffs provide additional protection to domestic processing industries allowing them to produce at higher than international costs, and hence to increase artificially their value added as compared to that of efficient international competitors. This implies in turn for exporters that access to exports for processed industrial products becomes more difficult, and that vertical diversification of production for exports of higher value-added products is slowed down. In an attempt to capture these considerations, tariff escalation is frequently measured in terms of Effective Rates of Protection (ERP). This measure relates the protection granted to the processed product to the value added of the particular process involved and deducts the protection for the input procured externally. De facto, many data, methodological and conceptual problems involved in the measurement of ERPs lead to the frequent use of nominal rates of tariff escalation as a proxy.

30. A recent note prepared by the WTO Secretariat on "Tariff Escalation" in the context of the Committee on Trade and Environment (WT/CTE/W/25) arrives at the conclusion that in most countries studied (i.e., the Quad, Brazil, India, Indonesia, Malaysia, Poland and Hungary) bound post UR tariffs imply a nominal tariff escalation in such sectors as metals, textiles and clothing, leather products, rubber products, and to some extent also wood products and furniture. The study further maintains, that in view of the relatively large share of inputs in the value of the final product produced using natural resource-based products and textiles and clothing, the tariff escalation for these categories implies a substantially high effective rate of protection. In view of the large market base of these countries, a decline in tariffs would imply a significant increase in market access for other countries supplying them with exports.

31. The recent FAO study (1997) on "The Impact of the Uruguay Round on Tariff Escalation in Agricultural Products" (ESCP No.3) points out that as a result of the UR tariff concessions more than 80 per cent of nominal tariff wedges between raw materials and their processed products have decreased in nominal terms, creating some opportunities for developing countries to diversify their exports into higher value processed products. However, for more than half of the commodities selected, a positive tariff escalation will remain in application and retain an important dimension. These tariff wedges will reach, after full implementation of the UR concessions, on average, 17 per cent nominally (as compared to 23 per cent in the base years 1986-1988) for the commodity pairs and the three markets selected: 16 per cent in the EU (down from 23 per cent), 27 per cent in Japan (down from 25 per cent) and 9 per cent in the US market (down from 12 per cent). The study also contains estimates for effective rates of protection of selected products. Post UR ERPs reach, in the European Union for example, 44 per cent for wheat flour and 25 per cent for orange juice; in Japan 30 per cent for refined sugar and 12 per cent for roasted coffee; and in the United States 13 per cent for soya bean oil and 42 per cent for condensed milk. This study further finds that in certain cases ERPs will be negative, as the tariff for the agricultural raw material exceedsthat for the processed product. This result is however due mainly to the fact that only bound tariffs were taken into account. In many cases, processing

industries have, however, access to zero or low duty imports of their raw materials under tariff quotas or autonomous tariff suspensions. Others are compensated for high domestic raw material prices by additional tariffs for their products. In actual fact, the effective protection for the industry will not be negative but may even reach substantial dimensions.

32. The FAO study concludes that tariffs and tariff escalation may present an important problem for diversifying exports of developing countries. Though food processing is a major export industry of developing countries, their exports are largely concentrated in the first stage of processing. More advanced food industry products make up only 5 per cent of the agricultural exports of LDCs and 16.6 per cent of those of developing countries as a whole, against 32.5 per cent for developed countries. There are a number of reasons preventing developing countries from establishing value-added industries and increasing their share of processed agricultural exports. FAO concludes that for some commodities tariff escalation constitutes probably one of the major constraints to vertical diversification of their agricultural exports.

33. The analysis in this study complements the WTO and FAO studies by an estimation of ERPs for two major export products of developing countries which are followed through various stages of the production chain from raw materials through intermediate products to final industrial consumer goods: leather shoes and cotton shirts. These estimates meet the same problems as other studies in this area, such as the difficulty in translating estimated magnitudes into trade and resource allocation effects, as well as data problems for input-output coefficients, the selection of representative products in representative price ranges, or the need to apply restrictive assumptions (for example, that world market prices and production methods would not be affected by tariff changes). The results need therefore to be interpreted with all due caution.

34. Post-Uruguay Round ERPs for the production of leather shoes vary substantially between major markets. In terms of applied rates (as distinct from much higher bound rates or lower GSP and LDC rates), ERPs are relatively low for the final stage of shoe production in the EU and US with 9 and 12 per cent respectively. Protection for men's leather shoe producers reaches however high levels in Canada with 32 per cent; in Japan this rate is 28 per cent for shoes within the tariff quota and 260 per cent at the specific MFN rate for shoes priced at US$25 per pair (corresponding to the average import price of such shoes in the United States). At the lower rates, cost for domestic consumers in Canada and Japan reach by and large already one third of the value added. At the Japanese MFN rate, the protection implied can be compared with two and a half times the overhead cost and salaries of management and staff of a shoe factory. ERPs for leather shoes amount to 15 per cent in the Republic of Korea and 44 per cent in Malaysia. In the US, the ERP is much higher for footwear of plastic, rubber or textiles than for leather shoes.

35. There appears to be no homogeneous pattern of increase of effective protection by stages in the shoe industry. Effective protection doubles in the United States and Canada from the stage of the leather industry to that of footwear production (from 7 to 12 per cent and 15 to 32 per cent, respectively), and rises even more steeply in Malaysia (from 16 to 44 per cent). On the other hand, about the same level of protection is accorded to both industries in the Republic of Korea (15 per cent). In the EU, protection is more pronounced for the leather industry than for shoe production (at rates of 14 per cent and 9 per cent). At a rate of 14 per cent, EPR may however still slow down entry of new potential exporters aiming for forward integration

from efficient cattle production. It may also be recalled that most successful footwear exporters did not build up vertical integration through these stages, but started directly with shoe production under subcontracting and special tariff provisions for outward processing.

36. The non-linearity of effective protection along the processing chain is even more pronounced for cotton shirts. Effective protection of cotton shirts varies between 7 per cent in Japan and 35 per cent in the US among the developed countries and amounts to 20 per cent in the Republic of Korea and 58 per cent in Malaysia. Effective protection remains relatively high at the first entry level to industry. Spinning is protected at rates of 25 and 28 per cent in the US and Canada, 40 per cent in the Republic of Korea and almost 70 per cent in Malaysia. This compares with 14 per cent in the EU and only 6 per cent in Japan. ERPs for the weaving stage are relatively lower and fairly similar in the EU, Japan and the Republic of Korea (13-15 per cent), about half that level in the US (8 per cent) and substantially higher in Malaysia.

37. As stated above, these estimates need to be interpreted with caution because of data problems. Another reason is that quantitative restrictions continue to provide additional protection for the textiles and clothing industry. GSP offers opportunities for lower tariff imports of intermediate inputs in some major markets. Both factors increase the Effective Rate of Protection (ERP) in further processing stages. On the other hand, special outward processing tariff provisions for the finished products or certain intermediate processes such as cotton printing, diminish effective protection in clothing and footwear industries. These results point nonetheless to the persistence of high levels of effective protection in these major consumer good industries which are of primary export importance to developing countries.

IV. OVERVIEW

38. In spite of the substantial progress in trade liberalization resulting from the Uruguay Round, there remain an important number of products and sectors where peak tariffs, relatively high effective protection and significant tariff escalation will persist even once all agreed concessions are implemented, and even if one takes full account of GSP concessions.

39. While numerous peak tariffs were substantially reduced during the Round, this was not a general pattern. In effect, there are a number of products for which certain countries did not offer concessions at all or only small reductions. The effects of the per se positive structural change in protection through tariffication have further created new peak tariffs throughout the agricultural sector and in large parts of the food industries. The reform process of agricultural protection, which comprises also the reduction of subsidies and domestic protection, should therefore be pursued intensively and rapidly concluded. The persistence of many high duties and the below average reduction of many such rates is also a consequence of the fact that the Uruguay Round tariff negotiations did not establish specific targets for tariff harmonization, contrary to what had happened during the previous Rounds. Appropriate harmonization formulas which meet this new situation would merit further study.

40. In the industrial sector, the high tariff, high escalation areas include many products where developing countries have a high share in the imports of

the major markets concerned. Footwear, clothing, textiles, etc. represent a significant proportion of exports of many developing countries. In the agricultural sector and in particular the food industry, the importance of peaks for exporters is often reflected by low levels of imports to major markets: where tariffs are very high, overall imports are frequently small. Imports from developing countries are absent over wide ranges of food industry products and sometimes even for their major agricultural export products in individual major markets. According to preliminary indications there seems to be little trade exceeding the tariff quota levels in agricultural and food industry products.

41. The dynamics of the effects of the Uruguay Round concessions will soon become transparent in the trade statistics. Thus far, trade data are only available for 1995 or 1996, i.e., a maximum of two years after the beginning of their staged implementation; furthermore, they are at an insufficient level of disaggregation to capture most particular peak duty products. A preliminary review of trade data for broader product definitions including high tariff products tends to show that there have been substantial trade increases in some areas in major markets, and in particular the developing country markets selected. But this is by no means a general trend. There are several products and sectors where tariffs are particularly high and where trade has stagnated or even regressed between 1990 and 1996, sometimes contrary to the general trend of rapid growth of overall import demand. This has been for example the case of imports of beef and groundnut products into the US and shoe imports into Japan. In the EU, a significant reduction in imports of beef with bones, other meat, and a number of cereals has complemented the absence of significant imports of several other products from developing countries. It is not yet possible to attribute at this stage movements in trade to tariff changes resulting from the Round. Many other factors enter into account, in particular with respect to export capacities of developing countries and competitive strength and divergent economic growth in major markets. Other market access conditions also play an important role. For example, the sanitary and phytosanitary problems of many developing countries, and the way in which corresponding import restrictions are still applied by many importing countries, may provide some explanation as to why trade of beef is flowing to one major market, whereas there are no exports to other major markets.

42. The nature of the peak tariffs and their selective application would warrant complementing the existing tariff and trade data base with detailed national trade data specifying for each tariff line the trade flows under the various tariff regimes and rates applied. This should include individual trade flows by partner countries under the MFN, GSP and LDC rates, preferential trade within free trade agreements, customs unions or other preferential arrangements, trade under outward processing regimes, and autonomous tariff rates. This work could be useful for backstopping future negotiations on agricultural products, and, as the case may be, for eventual negotiations on industrial products, including harmonization of peak tariffs. It requires the full cooperation of the WTO member States for supplying this information to the secretariats. The TRAINS system of UNCTAD could be adjusted for disseminating such information in a PC format to member countries and private business.

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TABLE 1: Distribution of tariff peaks by product groups
European Union

Product Group	Number of items						No of peaks	Share
	Total	12 - 19%	20 - 29%	30 - 99%	100 - 299%	>= 300%	Total	in Total (%)
Meat, live animals, etc. (1-2)	351	52	68	79	13	1	213	16.2
Fish and crustaceans (3)	373	96	45	.	.	.	141	10.7
Dairy products (4)	197	14	21	77	9	.	121	9.2
Fruit and vegetables (7-8)	407	116	10	5	1	.	132	10
Cereals, flour and meal, etc. (10-11)	174	21	29	75	.	.	125	9.5
Vegetable oils, fats, oilseeds, etc. (12,15)	211	14	.	8	1	1	24	1.8
Canned and prepared meat, fish, etc. (16)	105	33	17	8	.	.	58	4.4
Sugar, cocoa and preparations (17,18)	75	10	34	6	.	.	50	3.8
Prepared fruit, vegetables (20)	310	140	70	39	1	.	250	19
Other food industry products (19,21)	90	16	27	8	.	.	51	3.9
Beverages and tobacco (22,24)	202	48	9	15	2	.	74	5.6
Other agriculteral products (5-6, 9, 13-14, 23)	231	12	4	14	4	.	34	2.6
SUBTOTAL: Agricultural and fishery products (1-24)	**2726**	**572**	**334**	**334**	**31**	**2**	**1273**	**96.8**
SUBTOTAL: Mineral products, fuels (25-27)	**257**	.	.	.	.	.	**0**	**0**
Leather, leather products (41-43)	138	.	.	.	.	.	0	0
Textiles (50-60, 63)	967	3	.	.	.	.	3	0.2
Clothing (61-62)	378	.	.	.	.	.	0	0
Footwear (64)	82	3	.	.	.	.	3	0.2
SUBTOTAL: Leather, textiles, clothing (41-43, 50-64)	**1565**	**6**	.	.	.	.	**6**	**0.5**
Glass and ceramic products (69-70)	198	.	.	.	.	.	0	0
Consumer electronics (8516-8542)	435	.	.	.	.	.	0	0
Vehicles (87)	184	15	.	.	.	.	15	1.1
Watches and clocks (91)	65	.	.	.	.	.	0	0
Chemicals, plastic and rubber products (28-40)	1596	6	7	8	.	.	21	1.6
Wood, paper, furniture, etc. (44-49, 65-68, 71, 92-96)	942	.	.	.	.	.	0	0
Metal products, machinery, etc. (72-86, 88-90)	2786	.	.	.	.	.	0	0
SUBTOTAL: Industrial products (28-96)	**7771**	**27**	**7**	**8**	.	.	**42**	**3.2**
TOTAL: ALL PRODUCTS (1-96)	**10754**	**599**	**341**	**342**	**31**	**2**	**1315**	**100**

TABLE 2: Distribution of tariff peaks by product groups

Japan

Product Group	Number of items						No of peaks	Share
	Total	12 - 19%	20 - 29%	30 - 99%	100 - 299%	>= 300%	Total	in Total (%)
Meat, live animals, etc. (1-2)	136	11	3	19	7	.	40	4.5
Fish and crustaceans (3)	189	.	.	.	.	.	0	0
Dairy products (4)	146	2	45	57	17	5	126	14.1
Fruit and vegetables (7-8)	209	18	1	2	1	6	28	3.1
Cereals, flour and meal, etc. (10-11)	132	17	37	24	5	5	88	9.9
Vegetable oils, fats, oilseeds, etc. (12,15)	161	6	1	1	.	3	11	1.2
Canned and prepared meat, fish, etc. (16)	101	1	21	3	1	2	28	3.1
Sugar, cocoa and preparations (17,18)	80	4	26	19	6	.	55	6.2
Prepared fruit, vegetables (20)	231	81	52	5	2	.	140	15.7
Other food industry products (19,21)	232	44	113	2	14	1	174	19.5
Beverages and tobacco (22,24)	65	10	8	.	.	.	18	2
Other agriculteral products (5-6, 9, 13-14, 23)	208	10	.	.	.	.	10	1.1
SUBTOTAL: Agricultural and fishery products (1-24)	**1890**	**204**	**307**	**132**	**53**	**22**	**718**	**80.5**
SUBTOTAL: Mineral products, fuels (25-27)	**194**	.	.	.	.	.	**0**	**0**
Leather, leather products (41-43)	173	33	13	12	.	.	58	6.5
Textiles (50-60, 63)	1551	9	.	.	2	.	11	1.2
Clothing (61-62)	572	27	.	.	.	.	27	3
Footwear (64)	114	1	38	13	12	9	73	8.2
SUBTOTAL: Leather, textiles, clothing (41-43, 50-64)	**2410**	**70**	**51**	**25**	**14**	**9**	**169**	**18.9**
Glass and ceramic products (69-70)	112	.	.	.	.	.	0	0
Consumer electronics (8516-8542)	211	.	.	.	.	.	0	0
Vehicles (87)	83	.	.	.	.	.	0	0
Watches and clocks (91)	60	.	.	.	.	.	0	0
Chemicals, plastic and rubber products (28-40)	1335	2	3	.	.	.	5	0.6
Wood, paper, furniture, etc. (44-49, 65-68, 71, 92-96)	791	.	.	.	.	.	0	0
Metal products, machinery, etc. (72-86, 88-90)	1878	.	.	.	.	.	0	0
SUBTOTAL: Industrial products (28-96)	**6880**	**72**	**54**	**25**	**14**	**9**	**174**	**19.5**
TOTAL: ALL PRODUCTS (1-96)	**8964**	**276**	**361**	**157**	**67**	**31**	**892**	**100**

TABLE 3: Distribution of tariff peaks by product groups
U.S.A.

Product Group	Number of items						No of peaks	Share
	Total	12 - 19%	20 - 29%	30 - 99%	100 - 299%	>= 300%	Total	in Total (%)
Meat, live animals, etc. (1-2)	116	1	6	.	.	.	7	0.8
Fish and crustaceans (3)	114	.	.	.	.	.	0	0
Dairy products (4)	251	44	29	58	5	4	140	15.3
Fruit and vegetables (7-8)	269	17	13	.	.	.	30	3.3
Cereals, flour and meal, etc. (10-11)	59	.	.	.	.	.	0	0
Vegetable oils, fats, oilseeds, etc. (12,15)	124	4	.	2	2	.	8	0.9
Canned and prepared meat, fish, etc. (16)	90	2	1	1	.	.	4	0.4
Sugar, cocoa and preparations (17,18)	144	20	6	13	2	.	41	4.5
Prepared fruit, vegetables (20)	169	20	3	2	3	.	28	3.1
Other food industry products (19,21)	156	21	11	18	2	.	52	5.7
Beverages and tobacco (22,24)	126	10	1	3	1	7	22	2.4
Other agriculteral products (5-6, 9, 13-14, 23)	161	.	.	2	.	.	2	0.2
SUBTOTAL: Agricultural and fishery products (1-24)	**1779**	**139**	**70**	**99**	**15**	**11**	**334**	**36.6**
SUBTOTAL: Mineral products, fuels (25-27)	**183**	.	.	.	.	.	**0**	**0**
Leather, leather products (41-43)	156	14	5	.	.	.	19	2.1
Textiles (50-60, 63)	984	184	25	1	.	.	210	23
Clothing (61-62)	559	170	69	8	.	.	247	27.1
Footwear (64)	115	6	11	31	.	.	48	5.3
SUBTOTAL: Leather, textiles, clothing (41-43, 50-64)	**1814**	**374**	**110**	**40**	.	.	**524**	**57.4**
Glass and ceramic products (69-70)	232	12	9	2	.	.	23	2.5
Consumer electronics (8516-8542)	370	5	.	.	.	.	5	0.5
Vehicles (87)	166	.	6	.	.	.	6	0.7
Watches and clocks (91)	175	5	2	1	.	.	8	0.9
Chemicals, plastic and rubber products (28-40)	2014	1	.	.	.	.	1	0.1
Wood, paper, furniture, etc. (44-49, 65-68, 71, 92-96)	982	3	.	2	.	.	5	0.5
Metal products, machinery, etc. (72-86, 88-90)	2370	7	.	.	.	.	7	0.8
SUBTOTAL: Industrial products (28-96)	**8123**	**407**	**127**	**45**	.	.	**579**	**63.4**
TOTAL: ALL PRODUCTS (1-96)	**10085**	**546**	**197**	**144**	**15**	**11**	**913**	**100**

TABLE 4: Distribution of tariff peaks by product groups

Canada

Product Group	Number of items					No of peaks	Share
	Total	12 - 19%	20 - 29%	30 - 99%	100 - 299%	>= 300%	Total	in Total (%)
Meat, live animals, etc. (1-2)	133	.	1	.	8	.	9	1.5
Fish and crustaceans (3)	89	.	.	.	.	.	0	0
Dairy products (4)	87	.	.	2	36	.	38	6.5
Fruit and vegetables (7-8)	238	27	.	.	.	.	27	4.6
Cereals, flour and meal, etc. (10-11)	90	3	8	10	.	.	21	3.6
Vegetable oils, fats, oilseeds, etc. (12,15)	120	.	.	1	1	.	2	0.3
Canned and prepared meat, fish, etc. (16)	91	5	.	.	8	.	13	2.2
Sugar, cocoa and preparations (17,18)	59	4	.	5	2	.	11	1.9
Prepared fruit, vegetables (20)	92	10	.	.	.	.	10	1.7
Other food industry products (19,21)	164	11	1	1	8	.	21	3.6
Beverages and tobacco (22,24)	95	3	.	1	3	.	7	1.2
Other agriculteral products (5-6, 9, 13-14, 23)	171	2	.	1	2	.	5	0.9
SUBTOTAL: Agricultural and fishery products (1-24)	**1429**	**65**	**10**	**21**	**68**	.	**164**	**28.2**
SUBTOTAL: Mineral products, fuels (25-27)	**187**	**5**	.	.	.	.	**5**	**0.9**
Leather, leather products (41-43)	107	10	.	.	.	.	10	1.7
Textiles (50-60, 63)	791	177	7	.	.	.	184	31.6
Clothing (61-62)	251	120	5	.	.	.	125	21.5
Footwear (64)	60	13	15	.	.	.	28	4.8
SUBTOTAL: Leather, textiles, clothing (41-43, 50-64)	**1209**	**320**	**27**	.	.	.	**347**	**59.6**
Glass and ceramic products (69-70)	152	7	.	.	.	.	7	1.2
Consumer electronics (8516-8542)	418	8	.	.	.	.	8	1.4
Vehicles (87)	160	1	.	.	.	.	1	0.2
Watches and clocks (91)	83	5	.	.	.	.	5	0.9
Chemicals, plastic and rubber products (28-40)	1254	14	.	.	.	.	14	2.4
Wood, paper, furniture, etc. (44-49, 65-68, 71, 92-96)	835	13	.	.	.	.	13	2.2
Metal products, machinery, etc. (72-86, 88-90)	2680	6	12	.	.	.	18	3.1
SUBTOTAL: Industrial products (28-96)	**6791**	**374**	**39**	.	.	.	**413**	**71**
TOTAL: ALL PRODUCTS (1-96)	**8407**	**444**	**49**	**21**	**68**	.	**582**	**100**

TABLE 5: Distribution of tariff peaks by product groups

Brazil

Product Group	Number of items *						No of peaks	Share
	Total	12 - 19%	20 - 29%	30 - 99%	100 - 299%	>= 300%	Total	in Total (%)
Meat, live animals, etc. (1-2)	86	2	.	.	.	.	2	0
Fish and crustaceans (3)	100	.	.	.	.	.	0	0
Dairy products (4)	43	36	.	.	.	.	36	0.7
Fruit and vegetables (7-8)	140	.	.	.	.	.	0	0
Cereals, flour and meal, etc. (10-11)	72	10	.	.	.	.	10	0.2
Vegetable oils, fats, oilseeds, etc. (12,15)	125	5	.	.	.	.	5	0.1
Canned and prepared meat, fish, etc. (16)	32	32	.	.	.	.	32	0.6
Sugar, cocoa and preparations (17,18)	35	24	9	.	.	.	33	0.6
Prepared fruit, vegetables (20)	51	51	.	.	.	.	51	0.9
Other food industry products (19,21)	59	57	.	.	.	.	57	1
Beverages and tobacco (22,24)	45	14	28	.	.	.	42	0.8
Other agriculteral products (5-6, 9, 13-14, 23)	151	3	.	.	.	.	3	0.1
SUBTOTAL: Agricultural and fishery products (1-24)	**939**	**234**	**37**	.	.	.	**271**	**5**
SUBTOTAL: Mineral products, fuels (25-27)	**212**	.	.	.	.	.	**0**	**0**
Leather, leather products (41-43)	108	7	29	.	.	.	36	0.7
Textiles (50-60, 63)	704	542	81	.	.	.	623	11.4
Clothing (61-62)	238	.	238	.	.	.	238	4.4
Footwear (64)	33	6	27	.	.	.	33	0.6
SUBTOTAL: Leather, textiles, clothing (41-43, 50-64)	**1083**	**555**	**375**	.	.	.	**930**	**17.1**
Glass and ceramic products (69-70)	139	66	8	.	.	.	74	1.4
Consumer electronics (8516-8542)	396	195	69	.	.	.	264	4.8
Vehicles (87)	125	65	57	.	.	.	122	2.2
Watches and clocks (91)	70	39	31	.	.	.	70	1.3
Chemicals, plastic and rubber products (28-40)	3024	1325	.	.	.	.	1325	24.3
Wood, paper, furniture, etc. (44-49, 65-68, 71, 92-96)	640	332	80	.	.	.	412	7.6
Metal products, machinery, etc. (72-86, 88-90)	2503	1919	63	.	.	.	1982	36.4
SUBTOTAL: Industrial products (28-96)	**7980**	**4496**	**683**	.	.	.	**5179**	**95**
TOTAL: ALL PRODUCTS (1-96)	**9131**	**4730**	**720**	.	.	.	**5450**	**100**

* Post U.R. rates or MERCOSUR common external tariff rates.

TABLE 6: Distribution of tariff peaks by product groups

China

Product Group	Number of items *						No of peaks	Share
	Total	12 - 19%	20 - 29%	30 - 99%	100 - 299%	>= 300%	Total	in Total (%)
Meat, live animals, etc. (1-2)	91	19	.	59	.	.	78	1.7
Fish and crustaceans (3)	112	.	5	91	.	.	96	2.1
Dairy products (4)	36	.	.	34	.	.	34	0.7
Fruit and vegetables (7-8)	138	7	70	59	.	.	136	2.9
Cereals, flour and meal, etc. (10-11)	50	.	.	29	10	.	39	0.8
Vegetable oils, fats, oilseeds, etc. (12,15)	124	6	36	43	5	.	90	1.9
Canned and prepared meat, fish, etc. (16)	32	.	.	32	.	.	32	0.7
Sugar, cocoa and preparations (17,18)	29	7	4	18	.	.	29	0.6
Prepared fruit, vegetables (20)	70	.	.	70	.	.	70	1.5
Other food industry products (19,21)	38	.	1	37	.	.	38	0.8
Beverages and tobacco (22,24)	35	1	1	32	.	.	34	0.7
Other agriculteral products (5-6, 9, 13-14, 23)	154	10	47	43	.	.	100	2.1
SUBTOTAL: Agricultural and fishery products (1-24)	**909**	**50**	**164**	**547**	**15**	.	**776**	**16.7**
SUBTOTAL: Mineral products, fuels (25-27)	**183**	**6**	**2**	.	.	.	**8**	**0.2**
Leather, leather products (41-43)	87	16	18	47	.	.	81	1.7
Textiles (50-60, 63)	729	108	187	394	.	.	689	14.8
Clothing (61-62)	275	.	.	275	.	.	275	5.9
Footwear (64)	29	.	.	29	.	.	29	0.6
SUBTOTAL: Leather, textiles, clothing (41-43, 50-64)	**1120**	**124**	**205**	**745**	.	.	**1074**	**23.1**
Glass and ceramic products (69-70)	101	13	36	46	.	.	95	2
Consumer electronics (8516-8542)	266	94	31	84	.	.	209	4.5
Vehicles (87)	179	16	31	76	31	.	154	3.3
Watches and clocks (91)	57	.	7	46	.	.	53	1.1
Chemicals, plastic and rubber products (28-40)	1250	236	171	138	.	.	545	11.7
Wood, paper, furniture, etc. (44-49, 65-68, 71, 92-96)	622	99	77	326	.	.	502	10.8
Metal products, machinery, etc. (72-86, 88-90)	1822	762	272	203	.	.	1237	26.6
SUBTOTAL: Industrial products (28-96)	**5417**	**1344**	**830**	**1664**	**31**	.	**3869**	**83.2**
TOTAL: ALL PRODUCTS (1-96)	**6509**	**1400**	**996**	**2211**	**46**	.	**4653**	**100**

* MFN rates of 1996

TABLE 7: Distribution of tariff peaks by product groups

Republic of Korea

Product Group	Number of items						No of peaks	Share
	Total	12 - 19%	20 - 29%	30 - 99%	100 - 299%	>= 300%	Total	in Total (%)
Meat, live animals, etc. (1-2)	118	21	35	18	.	.	74	8.9
Fish and crustaceans (3)	239	1	158	.	.	.	159	19.1
Dairy products (4)	44	.	11	30	.	.	41	4.9
Fruit and vegetables (7-8)	184	2	58	120	.	.	180	21.7
Cereals, flour and meal, etc. (10-11)	90	1	1	3	.	.	5	0.6
Vegetable oils, fats, oilseeds, etc. (12,15)	229	11	45	17	.	.	73	8.8
Canned and prepared meat, fish, etc. (16)	81	1	65	15	.	.	81	9.7
Sugar, cocoa and preparations (17,18)	52	.	3	.	.	.	3	0.4
Prepared fruit, vegetables (20)	91	2	20	68	.	.	90	10.8
Other food industry products (19,21)	105	3	.	7	.	.	10	1.2
Beverages and tobacco (22,24)	78	.	11	56	.	.	67	8.1
Other agriculteral products (5-6, 9, 13-14, 23)	264	4	22	7	.	.	33	4
SUBTOTAL: Agricultural and fishery products (1-24)	**1575**	**46**	**429**	**341**	.	.	**816**	**98.2**
SUBTOTAL: Mineral products, fuels (25-27)	**332**	.	.	.	.	.	**0**	**0**
Leather, leather products (41-43)	252	.	.	.	.	.	0	0
Textiles (50-60, 63)	941	.	.	.	.	.	0	0
Clothing (61-62)	329	.	.	.	.	.	0	0
Footwear (64)	55	.	.	.	.	.	0	0
SUBTOTAL: Leather, textiles, clothing (41-43, 50-64)	**1577**	.	.	.	.	.	**0**	**0**
Glass and ceramic products (69-70)	209	.	.	.	.	.	0	0
Consumer electronics (8516-8542)	378	7	.	.	.	.	7	0.8
Vehicles (87)	196	.	.	.	.	.	0	0
Watches and clocks (91)	84	.	.	.	.	.	0	0
Chemicals, plastic and rubber products (28-40)	2501	4	3	.	.	.	7	0.8
Wood, paper, furniture, etc. (44-49, 65-68, 71, 92-96)	1067	.	.	.	.	.	0	0
Metal products, machinery, etc. (72-86, 88-90)	2735	1	.	.	.	.	1	0.1
SUBTOTAL: Industrial products (28-96)	**8747**	**12**	**3**	.	.	.	**15**	**1.8**
TOTAL: ALL PRODUCTS (1-96)	**10654**	**58**	**432**	**341**	.	.	**831**	**100**

TABLE 8: Distribution of tariff peaks by product groups

Malaysia

Product Group	Number of items					No of peaks	Share
	Total	12 - 19%	20 - 29%	30 - 99%	100 - 299%	>= 300%	Total	in Total (%)
Meat, live animals, etc. (1-2)	89	.	.	.	.	.	0	0
Fish and crustaceans (3)	127	.	29	.	.	.	29	1
Dairy products (4)	54	.	.	.	.	.	0	0
Fruit and vegetables (7-8)	169	2	2	14	4	.	22	0.7
Cereals, flour and meal, etc. (10-11)	59	.	.	.	.	.	0	0
Vegetable oils, fats, oilseeds, etc. (12,15)	222	1	3	.	.	.	4	0.1
Canned and prepared meat, fish, etc. (16)	77	2	37	.	.	.	39	1.3
Sugar, cocoa and preparations (17,18)	44	11	.	3	.	.	14	0.5
Prepared fruit, vegetables (20)	144	19	48	3	.	.	70	2.4
Other food industry products (19,21)	83	24	13	.	.	.	37	1.3
Beverages and tobacco (22,24)	58	3	2	8	31	.	44	1.5
Other agriculteral products (5-6, 9, 13-14, 23)	126	.	3	1	.	.	4	0.1
SUBTOTAL: Agricultural and fishery products (1-24)	1252	62	137	29	35	.	263	8.9
SUBTOTAL: Mineral products, fuels (25-27)	**199**	**2**	**7**	**5**	**2**	.	**16**	**0.5**
Leather, leather products (41-43)	**105**	**3**	**26**	.	.	.	**29**	**1**
Textiles (50-60, 63)	845	12	395	140	.	.	547	18.6
Clothing (61-62)	248	.	235	3	.	.	238	8.1
Footwear (64)	48	.	16	24	.	.	40	1.4
SUBTOTAL: Leather, textiles, clothing (41-43, 50-64)	1246	15	672	167	.	.	854	29
Glass and ceramic products (69-70)	**132**	.	**37**	**41**	.	.	**78**	**2.6**
Consumer electronics (8516-8542)	305	51	71	20	.	.	142	4.8
Vehicles (87)	312	.	43	138	26	.	207	7
Watches and clocks (91)	59	.	1	1	.	.	2	0.1
Chemicals, plastic and rubber products (28-40)	1828	28	204	196	1	.	429	14.6
Wood, paper, furniture, etc. (44-49, 65-68, 71, 92-96)	2196	38	306	72	4	.	420	14.3
Metal products, machinery, etc. (72-86, 88-90)	2238	42	329	164	.	.	535	18.2
SUBTOTAL: Industrial products (28-96)	8316	174	1663	799	31	.	2667	90.5
TOTAL: ALL PRODUCTS (1-96)	**9767**	**238**	**1807**	**833**	**68**	.	**2946**	**100**

Table 9: Tariff Peak Products

Post U.R. Tariffs on Exports from Developing Countries

Agricultural products

Product Description	EU	Japan	USA	Canada	Brazil	China	Korea Rep. of	Malaysia
Bovine meat, chilled	86	46	26	26	10	50	40	0
Bovine meat, frozen (boneless)	215	46	26	26	12	50	30	0
Pork, frozen	38	66	0	0	10	45	25	0
Chicken meat, whole, frozen	32	12	2	238	10	45	20	0
Tunas, frozen	22	4	0	0	10	30	10	0
Sardines, frozen	23	4	1	0	10	30	10	0
Milk (>3 % fat)	113	280	66	241	14	30	36	0
Milk in powder, without sugar	66	80	55	243	16	30	40	0
Milk in powder, with sugar	54	85	179	243	16	30	40	0
Yoghurt	69	370	63	238	16	65	36	10
Butter	68	105	70	300	16	65	40	5
Cheese	120	30	133	246	16	65	36	10
Tomatoes, fresh or chilled	14	3	8	13	10	22	45	0
Cucumbers, fresh or chilled	16	3	13	13	10	22	27	0
Mushrooms	13	4	24	9	10	22	30	0
Olives, green	24	3	19	0	10	22	30	0
Olives, prov. preserved	16	9	12	0	10	22	27	10
Peas, dried	0	640	1	0	10	15	27	0
Beans, dried	0	460	0	0	10	6	30	0
Manioc, dried	75	15	0	0	10	20	20	5
Bananas, fresh	180	23	0	0	10	30	30	115
Pineapples, fresh	6	17	3	0	10	25	30	97
Oranges, fresh	16	32	4	0	10	52	50	10
Grapefruit,fresh	2	10	24	0	10	40	30	10
Grapes, fresh	18	12	1	1	10	55	45	10
Apples, fresh	11	17	0	0	10	40	45	10
Green tea	3	17	0	0	10	70	40	25
Wheat	65	39	2	77	10	114	5	0
Maize	84	60	2	1	8	114	5	0
Rice, milled	71	550	0	1	10	40	5	0
Wheat flour	44	40	2	33	12	91	4	0
Maize flour	29	21	2	6	10	91	5	0
Wheat, groats and meal	74	25	1	50	10	91	5	0
Maize, groats and meal	24	21	0	3	10	91	5	0
Malt of wheat	52	42	1	25	14	35	30	0
Wheat starch	32	75	0	25	10	35	8	0
Ground-nuts, shelled	0	550	132	0	10	20	40	5
Soya-bean oil, refined	10	13	19	10	10	122	5	5
Olive oil, refined	60	0	0	0	10	20	8	0
Margarine	31	21	10	56	12	55	8	4
Sausages	25	10	0	1	16	45	18	15
Pork hams, prepared	30	110	0	10	16	45	30	10
Beef meat, prepared	26	21	0	11	16	45	30	0
Canned herrings	20	7	0	5	16	45	20	5
Canned sardines	13	7	20	1	16	45	20	5
Canned tunas	24	10	35	9	16	45	20	5

Agricultural products - ctd.

Product Description	EU	Japan	USA	Canada	Brazil	China	Korea Rep. of	Malaysia
Cane sugar, raw	73	100	43	70	16	30	5	0
White sugar	71	59	41	70	16	30	8	0
Cane molasses	5	95	0	13	16	35	3	0
Chewing gum	18	24	0	8	20	15	8	15
Sugar confectionery	21	25	33	8	20	15	8	15
Cocoa powder with sugar	22	30	52	5	18	15	8	15
Chocolates, not filled	21	30	39	5	20	15	8	15
Pasta, uncooked, without eggs	39	22	0	7	16	40	8	15
Tapioca	34	10	0	0	16	40	8	5
Sweet biscuits, waffles etc.	26	15	0	4	18	40	8	15
Cucumbers, preserved	18	12	0	8	14	45	30	20
Tomatoes, preserved	14	13	13	12	14	45	45	20
Mushrooms, preserved	27	14	11	17	14	45	30	20
Beans, shelled, preserved	18	17	0	8	14	45	20	20
Fruit & nuts, preservd by sugar	33	13	16	10	14	65	30	0
Fruit jams, marmalades, purees	39	34	10	9	14	45	30	0
Peanut butter	13	12	132	0	14	50	50	5
Ground-nuts, roasted	11	21	132	0	14	45	50	5
Pineapples, prep.or preserved	25	110	1	0	14	45	45	58
Citrus fruit, prep.or preserved	21	30	14	0	14	45	45	20
Fruit mixtures, prep.or preservd	19	6	15	6	14	45	45	20
Orange juice	52	30	31	2	14	55	50	20
Grapefruit juice	44	30	19	0	14	55	30	20
Pineapple juice	46	30	12	0	14	55	50	20
Tomato juice	17	30	0	13	14	55	30	20
Grape juice	215	30	14	10	14	55	45	20
Apple juice	63	34	0	9	14	55	45	20
Coffe preparations & extracts	9	130	27	0	16	90	8	5
Tea prep., essences & extracts	6	180	91	0	16	90	40	20
Tomato ketchup	10	21	6	13	18	35	8	15
Other spirits, < 80 % vol.	46	27	0	1	20	70	30	95
Tobacco, stemmed, stripped	5	0	350	0	14	45	20	350
Cigarettes	58	0	10	13	20	70	40	165
Smoking tobacco	75	30	310	5	20	70	40	150

Note: Post Uruguay Round MFN rates above tariff quotas; or applied MFN rates (1997/96), or general GSP rates, if lower.

Table 10: Tariff Peak Products

Post UR. Tariffs on Exports from Developing Countries

Industrial products

Product Description	EU	Japan*	USA	Canada	Brazil	China	Korea Rep. of	Malaysia
Bovine skin leather, tanned	5	30	0	5	10	15	5	0
Sheep and lamb skin leather, prepared	2	30	2	7	10	25	5	0
Suitcases, briefcases of leather	1	16	8	11	20	45	8	25
Suitcases, of plastics or textiles	4	16	20	11	20	45	8	25
Small pocket leather goods	1	16	20	7	20	45	8	25
Leather gloves	7	14	14	16	20	45	8	25
Woven fabrics of > 80% combed wool	12	8	25	14	18	35	8	0
Cotton, raw	0	0	79	0	3	3	8	0
Carpets, knotted, of wool or fine animal hair	6	8	0	13	20	40	8	30
Babies' garments, knitted or croch., of synth. fibres	11	11	16	18	20	40	8	20
Women's blouses, knitted or croch., man-made fibr.	11	11	32	18	20	45	8	20
T-shirts, knitted or crocheted, of cotton	11	11	17	18	20	35	8	20
T-shirts, knitted or crocheted, of synthetic fibres	11	11	32	18	20	40	8	20
Pullovers, knitted or crocheted, of man-made fibres	11	11	32	18	20	40	8	20
Men's coats, woven, of wool or fine animal hair	11	13	17	18	20	45	8	20
Men's trousers, woven, of wool or fine animal hair	11	6	17	18	20	45	8	20
Men's trousers, woven, of cotton	11	6	17	17	20	40	8	20
Men's trousers, woven, of synthetic fibres	11	6	28	18	20	45	8	20
Women's dresses, woven, of wool or fine animal hair	11	10	14	18	20	45	8	20
Women's trousers, woven, of synthetic fibres	11	10	29	18	20	45	8	20
Men's shirts, woven, of cotton	11	7	20	17	20	40	8	20
Men's shirts, woven, of man-made fibres	11	7	28	18	20	45	8	20
Women's blouses, woven, of man-made fibres	11	10	27	18	20	45	8	20
Babies' garments, woven, of synthetic fibres	9	10	29	18	20	40	8	20
Ties, bow ties & cravats, woven, of man-made fibres	11	0	14	18	20	40	8	25
Bed linen, printed, of man-made fibres	11	5	15	18	20	40	8	30
Waterproof footwear	13	27	38	20	20	50	8	30
Footwear with outer soles & uppers of rubber/plast.	13	10	56	18	20	50	8	30
Footwear with leather uppers	6	160	10	18	20	60	8	30
Sports footwear (with textile uppers)	13	8	58	16	20	50	8	25
Parts of footwear, uppers and parts thereof	3	25	42	8	18	40	8	25
Ceramic tableware, kitchenware, etc. (excl. china)	9	0	28	0	20	55	8	30
Drinking glasses of glass	8	0	29	0	18	50	8	25
Glassware for kitchen, toilets, etc.	8	0	38	0	18	50	8	25
TV picture tubes, colour	10	0	15	6	18	20	8	0
Cars, capacity < 2.500 cm3	7	0	3	6	20	100	10	140
Diesel rucks	15	0	25	6	20	50	10	30
Bicylces	11	0	11	9	20	50	8	25
Watch movements	2	0	33	5	18	50	8	0

* GSP rates exist at half the MFN rate for most of these products, but are limited by tariff quotas.